Fortescue
The New Force in Iron Ore

APPENDIX 4E

For the year ended 30 June 2017

This information should be read in conjunction with Fortescue's Annual Report, including the Financial Report, for the year ended 30 June 2017.

For personal use only

Name of entity

Fortescue Metals Group Limited

ABN

57 002 594 872

Results for announcement to the market

		US$ million
Revenue from ordinary activities	up 19% to	8,447
Profit from ordinary activities after tax attributable to members	up 113% to	2,093
Net profit attributable to members	up 113% to	2,093

Dividends	Amount per security	Franked amount per security
Financial year ended 30 June 2017:		
Interim – ordinary	A$0.20	A$0.20
Final – ordinary	A$0.25	A$0.25
Previous corresponding period:		
Interim – ordinary	A$0.03	A$0.03
Final – ordinary	A$0.12	A$0.12
Ex-dividend date of final dividend	1 September 2017	
Record date of final dividend	4 September 2017	
Payment date of final dividend	3 October 2017	

Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan (the Plan) which allows eligible shareholders to elect to invest dividends in ordinary shares which rank equally with the ordinary shares of the Company. The allocation price for shares under the Plan will be calculated as the average of the daily volume weighted average market price of all Fortescue shares traded on the Australian Securities Exchange during the period of ten trading days commencing on the second day after the record date of 4 September 2017, being 6 September 2017.

The last date for receipt of applications to participate in or to cease or vary participation in the Plan is by 5:00pm (WST) on 5 September 2017. The Directors have determined that no discount shall apply to the allocation price and the Plan will not be underwritten. Shares to be allocated under the Plan will be acquired on market and transferred to participants on 3 October 2017. A broker will be engaged to assist in this process.

A copy of the Plan Rules is available at **www.fmgl.com.au/investors-media**

Net tangible asset backing

Net tangible asset backing per ordinary shares: US$3.12 (previous corresponding period: US$2.69).

Previous corresponding period

The previous corresponding period is the 12 months ended 30 June 2016.

Audit

This report is based on financial statements which have been audited.

Commentary on results for the period

A commentary on the results for the period is contained within the Annual Report, including the Financial Report that accompany this announcement.

Fortescue
The New Force in Iron Ore

For personal use only

Annual Report 2017





Together we are Fortescue

ABN 57 002 594 872

The year at a glance

TOTAL RECORDABLE INJURY FREQUENCY RATE FOR FY17

2.9

FY16 – 4.3

PRODUCTION

170.4 MT

SHIPPED

C1 COSTS

US$12.82 /WMT

FY16 – US$15.43 /WMT

REVENUE

US$8.4 BILLION

FY16 – US$7.1 BILLION

CONTRACTS AWARDED TO ABORIGINAL COMPANIES AND JVs

A$1.95 BILLION

FY16 – A$1.8 BILLION

TAX CONTRIBUTION

A$2 BILLION

FY16 – A$1.3 BILLION

FORTESCUE ORE CARRIERS

4

FY18 – COMPLETED FLEET OF 8 ORE CARRIERS

GREENHOUSE GAS EMISSIONS INTENSITY REDUCED BY

8%

FROM FY15

For personal use only

About this report

This report has been prepared for Fortescue's stakeholders in line with Fortescue's statutory and regulatory obligations. The Company is committed to becoming the safest, lowest cost, most profitable iron ore producer and the information within this report outlines Fortescue's performance and the journey to realising this vision in a manner that reflects the Company's core values.

This report provides a summary of Fortescue's operations and financial position for the financial year ended 30 June 2017. All references to Fortescue, the Group, the Company, we, us and our refer to Fortescue Metals Group Limited (ABN 57 002 594 872) and its subsidiaries. All references to a year are the financial year ended 30 June 2017 unless otherwise stated. All dollar figures are in US currency unless otherwise stated.

Contents

Overview	3
Operating and Financial Review	15
Ore Reserves and Mineral Resources	29
Corporate Social Responsibility	43
Governance	47
Financial Report	49
Remuneration Report	101
Corporate Directory	133



For personal use only

For personal use only

About Fortescue

Fortescue Metals Group is a global leader in the iron ore industry, recognised for its unique culture, innovation and industry-leading development of world class infrastructure and mining assets in the Pilbara, Western Australia.

Since it was founded in 2003, Fortescue has discovered and developed major iron ore deposits and constructed some of the most significant mines in the world. The Company is focussed on its vision of being the safest, lowest cost, most profitable iron ore producer.

Now producing 170 million tonnes of iron ore per annum, Fortescue has grown to be one of the largest global iron ore producers and has been recognised as the lowest cost seaborne supplier of iron ore into China based on Metalytics Resource Sector Economics analysis.

Fortescue owns and operates integrated operations spanning three mine sites in the Pilbara, the five berth Herb Elliott Port in Port Hedland and the fastest, heavy haul railway in the world.

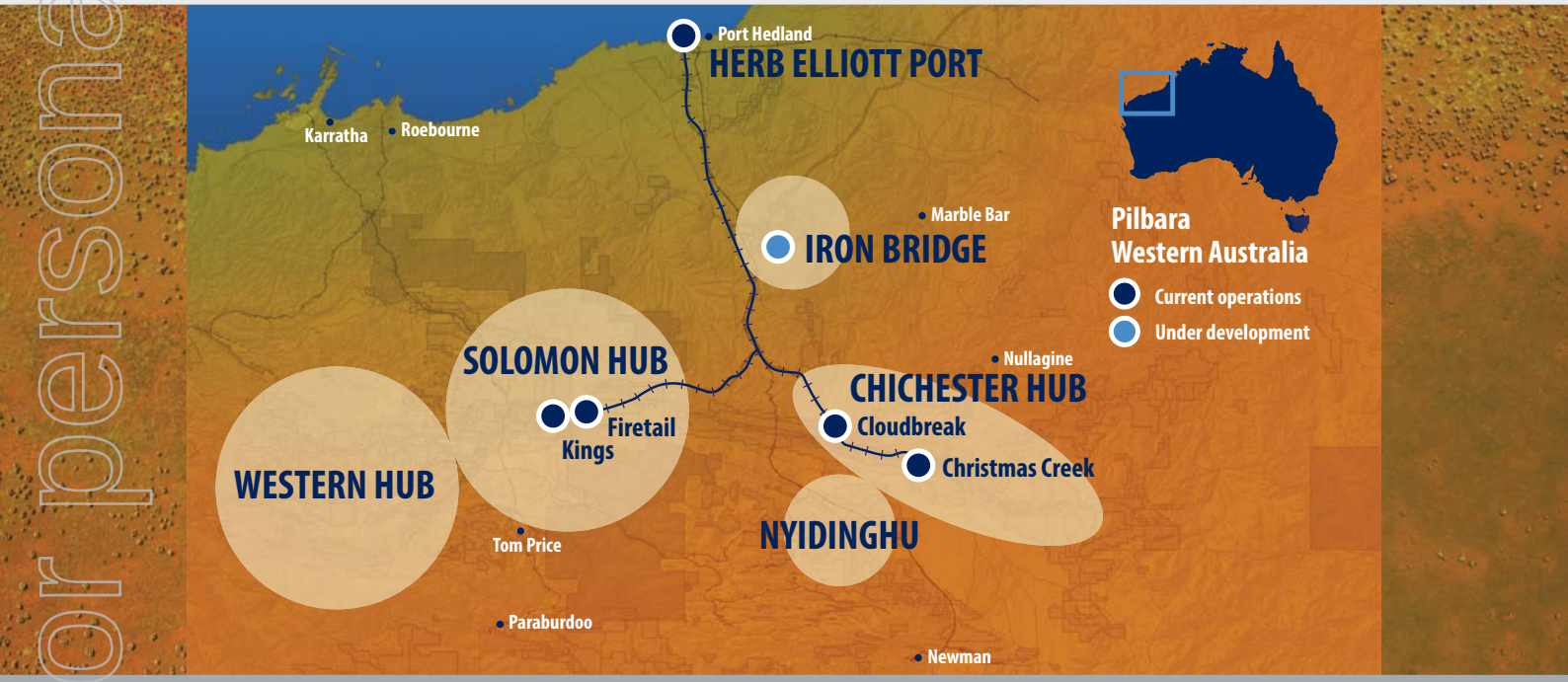
A natural extension of Fortescue's supply chain, the fleet of eight Fortescue Ore Carriers were designed to complement the industry leading efficiency of Fortescue's port.

As the first Company in Western Australia to control a railway from outside the region of operation and the first Company in the world to use CAT autonomous haulage technology on a commercial scale, Fortescue is continuing to introduce leading edge technology across the business.

Innovation in process and design is a key component of Fortescue's strategy to efficiently and effectively deliver products from mine to market.

Fortescue's longstanding relationships with customers in China has grown from the first commercial shipment of iron ore in 2008 to the Company now supplying 17 per cent of China's seaborne iron ore and expanding into Japan, South Korea and India.

As a proud West Australian Company, Fortescue values its relationship with key stakeholders by working together to positively manage and create opportunities for Aboriginal people, build up communities, protect the environment and strengthen the broader Australian economy.



FORTESCUE'S VISION

To be the safest, lowest cost, most profitable iron ore producer

FORTESCUE'S VALUES

Safety | Family | Integrity | Determination | Generating ideas | Empowerment | Frugality | Stretch targets | Enthusiasm | Humility

OVERVIEW





Together we are Fortescue

For personal use only

For personal use only

Chairman's message

Andrew Forrest AO



We're proud of our diversity, the strength and contribution by each of our Directors and the benefits that diversity brings to our Board's core strategic and governance role.

Our company has delivered a truly outstanding result for 2017.

We can all be proud of the disciplined execution of a clear strategy to continue to reduce debt, optimise the production from our world class assets, explore low cost options for future growth while achieving strong returns for all of us, as shareholders.

Our vision to be the world's safest, lowest cost, most profitable iron ore producer is firmly within our reach and the entire team has once again demonstrated its outstanding capability, with Metalytics recognising Fortescue as the world's lowest cost producer of seaborne iron ore to China – a genuinely exceptional achievement. A sustained focus on safety improvement and consistent production from our top tier mining and infrastructure assets places our Company in the best position for the future.

Our Board leads and empowers the CEO and the entire Fortescue team to achieve these results. During the year, we have renewed and refreshed the composition of our Board, welcoming Ms Penny Bingham-Hall and Ms Jenn Morris as Non-Executive Directors. Penny brings a wealth of experience from her roles in construction and steel, while Jenn contributes a perspective on building a performance culture, from her background leading change management and as a dual Olympic gold medallist.

Ms Elizabeth Gaines successfully transitioned from her role as a Non-Executive Director to take on the position of Chief Financial Officer and become a key member of the Executive team.

We're proud of our diversity, the strength and contribution by each of our Directors and the benefits that diversity brings to the core strategic and governance role that our Board provides.

We continue to set challenging stretch targets for the organisation and in FY17 have been delighted by the outcomes that the team has delivered. Significant improvement in safety, consistent production and securing the lowest cost position into China are measures of which we can all be truly proud.

As a Board, we also farewelled Owen Hegarty and Geoff Raby, and thanked them for their tremendous contributions to Fortescue's success over their respective terms.

During FY17, our close engagement with China continued and I was delighted to join with other business and Government leaders to welcome Premier Li to Australia during a visit that again underpinned the strength of our two countries' bilateral relationship. We supported the prestigious Boao Forum for Asia as a Diamond Sponsor for the ninth consecutive year, with the Australia-China Business Leaders Forum continuing its influential meetings through the participation of leading business contributors from both countries.

The closeness and mutual support between Fortescue and our customers and stakeholders mirrors the strength of the engagement at the most senior levels of Government and we value our relationships very highly.

Fortescue's dividends have enabled Nicola and I, through the Minderoo Foundation, to continue our support for major initiatives which now include:

- **Cancer.** Working with the finest minds and institutions in Australia and internationally in collaborations that will make cancer non-lethal for the coming generation and eventually a disease that does not profoundly impact people's lifestyles.
- **Education.** Supporting higher education and breakthrough research, through the provision of PhD and post-doctoral scholarships and facilities throughout Australia.
- **Early childhood.** Ensuring every Australian child has the best possible chance to thrive, through initiatives that will include the creation of a blueprint around the development of children in the critical years, from conception to five years old, that can become a global prototype.
- **Creating parity.** Encouraging education, training and employment initiatives that help to remove obstacles in people's lives and end disparity between Indigenous and non-Indigenous Australians.
- **Modern slavery.** Making Australia and the world safer by ensuring that every child and adult can expect, and receives, freedom, through the elimination of modern slavery globally.
- **Communities.** Supporting arts, culture, environmental, community and small organisations that can make a big impact, particularly to the lives of underprivileged communities and individuals.

I would like to convey my sincere congratulations and thanks to our CEO, Nev Power and the whole Fortescue team. Nev has provided the leadership and focus to empower the team to again deliver against the challenging stretch targets that we set for ourselves, generating the outstanding returns for all of us, as shareholders in this great Company.

It is through building success in our business that we can support the communities in which we operate and Fortescue has once again demonstrated its commitment and ability to do just that.

For personal use only



Minderoo Foundation announces largest ever donation of A$400m

In May 2017, Nicola and I had the honour of announcing a donation of A$400 million to be used to strengthen communities and support vulnerable and disadvantaged people in Australia and overseas.

We are in this privileged position thanks to the Fortescue family. It's through the hard work and dedication of everyone at Fortescue that the Minderoo Foundation has been funded, through the dividends we have received, to support a wide range of philanthropic initiatives in Australia and across the globe.

The A$400 million donation will capitalise on and expand the work of the Minderoo Foundation and its partners, as well as fund new programs and initiatives in Australia and around the world, focussing on the following areas:

- Cancer
- Education
- Early childhood
- Creating parity
- Modern slavery
- Communities

I am a strong believer in encouraging other Australians to give, not just money, but their time, energy and other resources that can make a difference in addressing some of society's most complex issues. The challenge is to give with your heart, mind and soul; to give cleverly so that maximum impact is achieved over the longer term.

Nicola and I founded the Minderoo Foundation with the belief in the power of giving a hand up rather than a hand out. It gives me great pride to see this philosophy demonstrated at Fortescue every day.

We thank everyone at Fortescue for their efforts and support. The outstanding financial performance of Fortescue has benefited all shareholders.

As shareholders, Nicola and I have chosen to use our dividends to fund the important work of the Minderoo Foundation to support and contribute to programs that are making a difference all over the world.

> **"I am a strong believer in encouraging other Australians to give, not just money, but their time, energy and other resources that can make a difference in addressing some of society's most complex issues."**

For personal use only

Chief Executive Officer's report

Nev Power



Fortescue's culture is underpinned by our safety and family values. We know that the importance of looking out for our mates and ourselves resonates very strongly across our business.

During FY17, Fortescue has achieved excellent results by delivering against the key elements of our strategy. All of our focus has been on debt repayment and capital flexibility, investment in the long term sustainability of our core iron ore business and developing low cost growth options, while generating strong returns for our shareholders.

Safety performance has continued to improve across the business and we are pleased to report a 33 per cent reduction in Total Recordable Injury Frequency Rate (TRIFR) for the year.

The results of our Safety Excellence and Culture Survey have again demonstrated a high level of engagement by all of our teams. With a participation rate of 92 per cent and improvement across all key measures, the survey indicates that we are heading in the right direction and have a solid foundation in place to build further on these achievements.

Fortescue's culture is underpinned by our safety and family values. We know that the importance of looking out for our mates and ourselves resonates very strongly across our business, providing us with core shared goals that will foster ongoing improvement.

Diversity remains a key focus as we build a workforce that is truly representative of our community and embraces diversity of thinking to foster ongoing innovation across the business. Building on our successful Aboriginal employee engagement programs, throughout the year we have implemented the practical initiatives needed to create a welcoming, supportive and encouraging environment for women.

Today, 15.8 per cent of our workforce is Aboriginal and 17.3 per cent female.

Consistent production was sustained in FY17 with delivery of 170.4 million tonnes from our mining operations at the Chichester and Solomon Hubs through our world class port and rail infrastructure. Responsiveness to our customers' needs has driven refinements to our product strategy, meeting the core requirements of quality, timely delivery and flexibility.

Four new ore carriers were delivered during FY17 with an additional four to be delivered during FY18, further enhancing the industry leading efficiency of our port operations.

Cost performance has been a core element of Fortescue's success in FY17. With our sustained productivity and efficiency focus, costs have reduced a further 17 per cent compared to FY16. From November 2016, Fortescue's position as the lowest cost provider of seaborne iron ore to China has been recognised and maintained by Metalytics Resource Sector Economic analysis.

Guidance for our C1 cost of US$11-12 will ensure that our cost reduction momentum journey is sustained, as we optimise technology and innovation across all areas of the business.

China's growth continues to underpin demand for steel with the emerging markets in Asia also participating in regional growth through China's visionary One Belt One Road strategy. Fortescue's relationship with China was strengthened further with a financing agreement with China Development Bank Financial Leasing Co., Ltd (CDB Leasing) for the ore carrier fleet, representing the largest direct funding arrangement provided by a major Chinese financier for a non-Chinese company in Australia.

The construction of the ore carriers at China's Jiangsu Yangzijiang and Guangzhou Shipbuilding International shipyards is another example of Fortescue's successful efforts to expand our collaboration with Chinese industry.

Fortescue's financial results reflect the excellent operating outcomes, with net profit after tax of US$2,093 million, an increase of 112 per cent compared to FY16. Revenue for the year increased by 19 per cent from US$7,083m to US$8,447m, with sustained cost reductions contributing to strong cash flows. We have continued to reduce our debt during the year repaying a further US$2.7 billion, with net gearing ratio now at 21 per cent and our nearest term debt maturity in 2022. Disciplined capital management, further strengthening our balance sheet and generating returns for our shareholders remain our key priorities.

Our commitment to communities ensures they benefit from the growth and development of our business. This year we delivered more training, employment and business development opportunities for Aboriginal people and our award-winning Billion Opportunities program grew to almost A$2 billion in contracts awarded to Aboriginal businesses and joint-ventures since the program's inception in 2011.

This year has been marked by recognition of Fortescue's success externally and we were proud to receive a number of industry awards during FY17. I have had the honour of accepting a number of these awards on behalf of the Fortescue team, all of which have been made possible by the great efforts and hard work of all of our employees and contractors.

My sincere congratulations and thanks go to all of the Fortescue team for their contributions to an outstanding year.



For personal use only

Fortescue's commitment to diversity



In FY17, Fortescue continued to foster a culture that truly embraces and celebrates diversity across our company.

To be the best company we can be, we need the very best ideas, across every part of our business. The best ideas come from a diverse workforce: teams with a broad range of backgrounds, skills, experience and personalities and to make our business strong, we need to ensure our talented women have the opportunity to reach their potential and fully contribute to Fortescue.

This year, Fortescue took important steps towards increasing diversity, determined to implement workable measures to make a real change.

- Overall female employment reached 17.3 per cent
- 23.6 per cent of management positions are now held by women, up from 20 per cent in 2016
- Close to 25 per cent of participants in the Trade Up program are female
- The Fortescue Family Room opened in the Fortescue Centre in Perth as a short-term crèche service
- The number of males accessing primary carer's paid parental leave increased as did the number of females, with 94 per cent of female employees returning from parental leave
- 248 Fortescue employees, including site based team members, benefitted from tailored job share and flexible working arrangements.

In addition to this, we were very proud to announce in November 2016 that Fortescue was the first ASX 20 Company to have five women on our Board of Directors. Today, more than 50 per cent of our Board members are female.

I was also delighted to host two Business Update Networking events for working parents and particularly mothers and expectant mothers, to talk about how Fortescue is supporting a diverse workforce, while also hearing directly from the community on how we can assist parents returning to work after starting a family.

> **"Creating a welcoming, supportive and encouraging environment for women directly enhances Fortescue's success by improving its diversity. We want to make a real difference by providing practical solutions to support women and parents in the workplace."**

Value chain

Innovation in process and design has been a key component of Fortescue's strategy in challenging industry standards to more efficiently and effectively deliver its product suite from mine to market

1 Exploration and discovery

Challenging geological thinking to identify valuable deposits

2 Extraction and recovery

Innovative use of technology suitable to Fortescue's deposits

3 Processing

Ore processing facility design and wet processing optimise output

4 Mine to port

Heaviest haul rail at 42t axle load

5 Blending and stockpiling

Port design facilitates blending and stockpiling of product suite

6 Ship loading

- 3 shiploaders
- 5 berths maximise outload capacity and utilisation

7 Marketing

Helping customers achieve best value in use

8 Shipping

- Delivery to Fortescue's international customers' specifications
- 8 Fortescue Ore Carriers



For personal use only



The Board

Overview

Fortescue has a talented and diverse Board committed to enhancing and protecting the interests of shareholders and other stakeholders and fulfilling a strong governance role over the Company's affairs.

The primary driver for the Board in seeking new directors is skills and experience which are relevant to the needs of the Board in discharging its responsibilities to shareholders. Fortescue's policy is to assess all potential Board candidates without regard to race, gender, age, physical ability, sexuality, nationality, religious beliefs, or any other factor not relevant to their competence and performance.

The appointment and reappointment of directors is intended to maintain and enhance the overall quality of the Board through a composition which reflects a diversity of skills, experience, gender and age.

All new Board members benefit from a comprehensive induction process that supports their understanding of Fortescue's business. There is also a range of support given to Board members which enables them to stay strongly connected to the Company and its culture. These include:

- Opportunities for significant contribution to the annual strategy setting process conducted with executive and senior management
- Regular briefings from executive and senior management regarding all major business areas, tailored site visits and annual site tours to operational locations
- Biannual visits to China to meet with key customers and strengthen their understanding of the Company's key markets
- Regular formal and informal opportunities for the directors to meet with management and staff.

The directors also undertake an annual competency self-assessment to evaluate whether the Board, as a whole, maintains an appropriate mix of skills and experience to effectively fulfil its role. Opportunities for improvement are incorporated into director training and consideration for new director appointments.

The Board has established Committees to assist in the execution of its duties and to ensure that important and complex issues are given appropriate consideration. The primary Committees of the Board are the Remuneration and Nomination Committee, the Audit and Risk Management Committee and the Finance Committee. Each Committee has a non-executive Chair and operates under its own Charter which has been approved by the Board.

Directors are expected to act independently, ethically and comply with all relevant requirements of the *Corporations Act 2001*, ASX Listing Rules and the Company's constitution. The Company actively promotes ethical and responsible decision making through its values and Code of Conduct that embodies these values. There is a formal process to identify, disclose and manage potential conflicts of interest, should they arise. In this regard, the roles of Vice Chair and the Lead Independent Director are a cornerstone that ensures the interests of all shareholders are protected equally.

The Board and each of its three primary Committees have established a process to evaluate their performance annually. The process is based on a formal questionnaire and interview conducted by an independent consultant and supported by the Company Secretary. The most recent review was undertaken by Ernst & Young in February 2017. The results and recommendations are reported to the full Board for further consideration and agreement of improvement actions, where required.

At the date of this report, the Board has seven non-executive directors and two executive directors being Chief Executive Officer (CEO), Mr Nev Power, and Chief Financial Officer (CFO), Ms Elizabeth Gaines. Ms Gaines' executive appointment followed subsequent to her appointment as the CFO on 6 February 2017.

Previously, Mr Stephen Pearce acted as an executive director prior to his resignation on 23 September 2016. The Board believes that an appropriate mix of non-executive and executive directors is beneficial to its role and provides strong operational and financial insights into the business. The Board has maintained a consistent complement of two executive directors in recent years.

For personal use only

For personal use only

The Board



The Board is responsible to the shareholders for the performance of the Company. Its focus is to enhance and protect the interests of shareholders and other key stakeholders and to ensure that the Company is properly managed.

L-R Non-Executive Director Jennifer Morris, Chief Financial Officer and Executive Director Elizabeth Gaines, Chief Executive Officer and Managing Director Nev Power, Non-Executive Director Sharon Warburton, Chairman Andrew Forrest AO, Non-Executive Director Jean Baderschneider, Lead Independent Director Mark Barnaba AM, Non-Executive Director Penny Bingham-Hall, Non-Executive Director Cao Huiquan

Andrew Forrest AO

Chairman

Appointed Chairman in July 2003.
Chief Executive Officer in 2005 to July 2011.

Mr Forrest is Fortescue's Founder and is also the Founder and Chairman of the Minderoo Foundation, Australia's largest philanthropic organisation which operates GenerationOne, The Australian Employment Covenant and Walk Free.

In 2013, Mr Forrest was appointed by the Prime Minister to Chair the Indigenous Jobs and Training Review. He was named Western Australia's nominee as Australian of the Year in 2016 and West Australian of the Year in 2017 in recognition of his outstanding contribution to the community.

Mr Forrest also founded, developed and funded the Murrin Murrin nickel and cobalt operation, one of the largest producers of nickel and cobalt in the world. Murrin Murrin is considered by experts to be the most successful, and lowest capital and operating cost operations of all the new wave of laterite nickel producers.

A leading representative and advocate for the resources sector globally, Mr Forrest is an Adjunct Professor of the China Southern University and is a Fellow of the Australian Institute of Mining and Metallurgy.

Committee membership: Remuneration and Nomination Committee (Member), Finance Committee (Member) as at 30 June 2017. Finance Committee (Chair) as at 19 July 2017.

Mark Barnaba AM

Lead Independent Director

Lead Independent Director since November 2014;
Non-Executive Director since February 2010.

Effective 1 September 2017, Mr Barnaba is a member of the Board of the Reserve Bank of Australia. He is also Chairman of the State Theatre Company of Western Australia, and is an Adjunct Professor of Finance and Investment Banking at the University of Western Australia.

He is co-founder of Azure Capital and has previously served as Chairman of Western Power Corporation, The West Coast Eagles AFL Club and Alinta Infrastructure Holdings. In 2011, he was appointed by the Premier to chair the WA Steering Committee of the Commonwealth Business Forum for CHOGM. Previously, Mr Barnaba worked for McKinsey and Company and also recently held several senior executive roles at Macquarie Group, where until 31 August 2017, Mr Barnaba served as Chairman of Global Head of Natural Resources for Macquarie Capital.

Mr Barnaba holds a Bachelor of Commerce (Honours) from the University of Western Australia and a Master of Business Administration with High Distinction from Harvard Business School. He is a Fellow of the Australian Institute of Company Directors.

Committee memberships: Audit and Risk Management Committee (Chair) and Remuneration and Nomination Committee (Member).

For personal use only

Nev Power

Chief Executive Officer and Managing Director

Chief Executive Officer since July 2011; Managing Director since September 2011.

Mr Power has more than 30 years' experience in the mining, steel and construction industries and a proven track record in the delivery of major infrastructure projects, mining and steel manufacturing and distribution.

Prior to joining Fortescue, Mr Power held Chief Executive positions at Thiess and Smorgon Steel Group. As Fortescue's Chief Executive Officer, Mr Power has led the Company's strong, values based culture, commitment to safety excellence, to improving diversity and to the Billion Opportunities program which has awarded close to A$2 billion in contracts to Aboriginal businesses. Mr Power also has a long history in agribusiness and aviation holding both fixed wing and helicopter commercial pilot licenses. Mr Power is a passionate advocate for the development of northern Australia and for its communities to reach their full potential.

He is a Fellow of both Engineers Australia and the AusIMM and a member of the Australian Institute of Company Directors and the International Advisory Board for Lingnan (University) College, Sun Yat-sen University. Mr Power is a INSEAD graduate, and holds a Bachelor of Engineering and a Master of Business Administration.

Elizabeth Gaines

Chief Financial Officer and Executive Director

Chief Financial Officer and Executive Director since February 2017; Former Non-Executive Director since February 2013.

Ms Gaines is a highly experienced Chief Financial Officer with extensive international experience in all aspects of financial, treasury and commercial management. Ms Gaines has held Chief Financial Officer roles in Australia and the UK in a number of sectors including construction and infrastructure, agribusiness and travel and hospitality. Ms Gaines is highly experienced in global debt and capital markets.

Ms Gaines is the former Chief Executive Officer of Helloworld Limited and Heytesbury Pty Limited and has also held the position of Chief Financial Officer at the Stella Group and Entertainment Rights Plc.

A member of Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and Chief Executive Women, Ms Gaines holds a Bachelor of Commerce degree and Master of Applied Finance degree.

Former directorships in the last three years (ASX Listed Entities): NEXTDC Limited (Non-Executive Director), Mantra Group Limited (Non-Executive Director), Nine Entertainment Co. Holdings Limited (Non-Executive Director), ImpediMed Limited (Non-Executive Director), Helloworld Limited (Executive Director).

Jean Baderschneider

Non-Executive Director

Non-Executive Director since January 2015.

Dr Baderschneider retired from ExxonMobil in 2013 following a 30-year career where she had responsibility for operations around the world and served as Vice-President of Global Procurement. She has deep experience with high-risk operations/locations and complex partnerships.

Dr Baderschneider is a past member of the Board of Directors of the Institute for Supply Management. She served on the Executive Board of The Center for Advanced Purchasing Studies (CAPS) and the Procurement Council of both The Conference Board and Corporate Executive Board. She also served on the Executive Board of the National Minority Supplier Development Council and was the Presidential appointee to the US Department of Commerce's National Advisory Council of Minority Business Enterprises.

Penny Bingham-Hall

Non-Executive Director

Non-Executive Director since November 2016.

Ms Bingham-Hall brings significant operational skills and experience from executive roles including Head of Strategy at Leighton Holdings (now CIMIC) – Australia's largest construction, contract mining, infrastructure and property development group – together with 20 years' experience as a company director.

Ms Bingham-Hall is a Fellow of the Australian Institute of Company Directors, a Senior Fellow of the Financial Securities Institute of Australasia and a member of Chief Executive Women and WomenCorporateDirectors Foundation. She holds a Bachelor of Arts (Industrial Design).

Other current directorships (ASX listed entities): BlueScope Steel Limited (Non-Executive Director), DEXUS Property Group (Non-Executive Director).

Committee Membership: Finance Committee (Member), Audit and Risk Management Committee (Member).

Cao Huiquan

Non-Executive Director

Non-Executive Director since February 2012 (nominated director from Hunan Valin Iron and Steel Group Company Ltd).

Mr Cao is currently the Chairman of Hunan Valin Iron and Steel Group Co Ltd and Chairman and Chief Executive Officer of Hunan Valin Steel Co Ltd.

He joined Hunan Xiangtan Iron & Steel Co Ltd in 1991 and was appointed General Manager in 2003. In 2005, he was appointed Chief Executive Officer of Hunan Valin Steel Co Ltd and concurrently held the position of General Manager of Lianyuan Iron and Steel Group Co Ltd.

The Board

Jennifer Morris
Non-Executive Director

Non-Executive Director since November 2016.

Ms Morris is a former partner in the Consulting Division of Deloitte, where she specialised in complex large-scale business transformation programs, and strategy development. She also has extensive applied expertise in leadership and a demonstrated understanding of how to design and deliver a performance culture and high performing teams to deliver sustained and thriving performance at the elite level.

She currently serves as Chief Executive Officer of the Walk Free Foundation and is a Commissioner of the Board of the Australian Sports Commission.

Ms Morris is a Fellow of Leadership WA, a member of the Australian Institute of Company Directors, an affiliate member of Chartered Accountants Australia and New Zealand and dual Olympic gold medallist. She holds a Bachelor of Arts (Psychology and Journalism) and completed the Finance for Executives at INSEAD.

Committee Membership: Remuneration and Nomination Committee (Member), Audit and Risk Management Committee (Member).

Sharon Warburton
Non-Executive Director

Non-Executive Director since November 2013 and appointed Vice Chair as at 19 July 2017.

Ms Warburton has extensive experience in the mining, infrastructure and construction sectors. She gained substantial operational, commercial and risk management experience in the global resources sector through her time as an executive at Rio Tinto. She has also previously held senior executive positions at Brookfield Multiplex, ALDAR Properties PJSC, Multiplex and Citigroup.

In 2016, she was appointed Chairman of the Northern Australia Infrastructure Facility and currently serves as a Director at Western Power and the Perth Children's Hospital Foundation.

Ms Warburton is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, a graduate of the Australian Institute of Company Directors, a Fellow of Australian Institute of Building and a member of Chief Executive Women.

Other current directorships (ASX listed entities): Gold Road Resources Limited (Non-Executive Director), NEXTDC Limited (Non-Executive Director).

Former directorships in the last three years (ASX Listed Entities): Wellard Limited.

Committee membership: Remuneration and Nomination Committee (Chair) and Finance Committee (Chair) as at 30 June 2017.

Remuneration and Nomination Committee (Chair), Audit and Risk Management Committee (Member), Finance Committee (Member) and Vice Chair as at 19 July 2017.

Owen Hegarty
Vice Chair

Mr Hegarty was appointed Vice Chair in November 2014 having served as a Non-Executive Director since October 2008.

Mr Hegarty has 40 years' experience in the global mining industry, including 25 years with the Rio Tinto group.

Mr Hegarty retired from Fortescue's Board in December 2016.

Stephen Pearce
Chief Financial Officer and Executive Director

Mr Pearce was appointed as an Executive Director in June 2016, after joining Fortescue in March 2010. Mr Pearce has more than 20 years' experience in senior management roles in the mining, oil and gas and utilities industries.

Mr Pearce resigned from Fortescue's Board in September 2016 and resigned from his position as Chief Financial Officer in December 2016.

Geoff Raby
Non-Executive Director

Mr Raby was appointed as a Non-Executive Director in August 2011. He formerly served as Australia's Ambassador to the People's Republic of China between 2007 and 2011.

Mr Raby retired from Fortescue's Board in December 2016 and continues to work with Fortescue in a consultant capacity, assisting with China relations.

Alison Terry
Company Secretary

Ms Terry was appointed Company Secretary in February 2017, after joining Fortescue in 2013 as Group Manager Corporate Affairs.

With significant experience in corporate affairs, legal, company secretarial and general management, Ms Terry has previously held senior executive and Board roles across a number of sectors including automotive, telecommunications and superannuation.

She holds a Bachelor of Economics and Bachelor of Laws (Honours) and a Graduate Diploma of Business (Accounting).

Ian Wells
Company Secretary

Mr Wells was appointed as Company Secretary in February 2015, after joining Fortescue in 2010 as Group Manager, Treasury and Business Planning.

With more than 20 years' experience in senior finance and management roles in the mining, energy infrastructure and healthcare industries, Mr Wells was previously Chief Financial Officer at Singapore Power subsidiary Jemena Limited and holds a Bachelor of Business in Accounting and is a graduate of the Australian Institute of Company Directors.

For personal use only

For personal use only

Executive team

Fortescue's leadership



Fortescue's executive team is accountable for the safety of its people, upholding the Company's values, acting with integrity and honesty, and leading the business to achieve its vision of becoming the safest, lowest cost, most profitable iron ore producer in the world.

L-R: Director Business Development Tony Swiericzuk, Director Operations Greg Lilleyman, Chief Financial Officer Elizabeth Gaines, Director External Relations Tim Langmead, Group Manager Fortescue People Linda O'Farrell, Chief Executive Officer Nev Power, Company Secretary and Group Manager Corporate Affairs Alison Terry, Director Corporate Services and Chief General Counsel Peter Huston, Director Sales and Marketing David Liu, Group Manager Health and Safety Robert Watson

Nev Power
Chief Executive Officer

Mr Power was appointed Chief Executive Officer in July 2011 and has more than 30 years' experience in the mining, steel and construction industries. Before joining Fortescue, he held Chief Executive positions at Thiess and the Smorgon Steel Group.

Please refer to the Board of Director's section on page 11 for more details on Mr Power's experience.

Elizabeth Gaines
Chief Financial Officer

Ms Gaines assumed the role of Chief Financial Officer in February 2017. A highly experienced Chief Financial Officer and regarded as a financial and governance expert, Ms Gaines brings significant global, commercial and operational experience from a range of industry sectors to complement Fortescue's highly capable finance team.

Please refer to the Board of Director's section on page 11 for more details on Ms Gaines' experience.

Greg Lilleyman
Director Operations

Mr Lilleyman joined Fortescue in January 2017. With over 28 years' experience in the mining sector, he brings a wealth of industry knowledge with a personal style and approach strongly aligned with Fortescue's values and culture.

His extensive experience in leading safety and operational excellence combined with his thorough knowledge and passion for technology and innovation provides for further development of Fortescue's strong operational and cost performance.

Executive team

Peter Huston
Director Corporate Services and Chief General Counsel

Mr Huston brought over 20 years' experience in legal and corporate advisory roles when he joined Fortescue as Chief General Counsel in January 2005. Mr Huston joined the executive team in January 2009.

Prior to joining Fortescue, Mr Huston spent 12 years as a partner of the law firm now known as Norton Rose and 10 years in private equity, mergers and acquisitions.

Tim Langmead
Director External Relations

Mr Langmead was appointed Director External Relations in January 2014, after joining Fortescue as Group Manager Corporate Affairs in January 2013.

Previously, Mr Langmead held senior corporate affairs roles in the Australian business units of global oil and gas companies. Mr Langmead served in senior staff roles for Ministers in the Howard-Anderson and Howard-Vaile governments and commenced his career as an agribusiness journalist.

David Liu
Director Sales and Marketing

Mr Liu joined Fortescue in 2003 and was appointed as Director Sales and Marketing in 2011 following the completion of his post-graduate studies at the University of Western Australia.

Having spent nearly 30 years in Perth, Mr Liu has strong experience in trade and investment projects between Australia and China. Mr Liu brings a deep understanding of Asian, particularly Chinese, culture and business practices to Fortescue's strategy of securing long-term partnerships with the major steel mills in Asia.

Linda O'Farrell
Group Manager Fortescue People

Ms O'Farrell joined Fortescue in October 2013 as Group Manager Fortescue People, joining the executive team in December 2014. Having held a number of executive human resources roles in major Australian resource companies, Ms O'Farrell brings strong experience in strategic people management, diversity and Aboriginal employment.

Ms O'Farrell holds a Bachelor of Economics (Honours in Industrial Relations) from the University of Western Australia.

Tony Swiericzuk
Director Business Development

Mr Swiericzuk was appointed Director Business Development in April 2017. Mr Swiericzuk started his career at Fortescue in 2009 as General Manager Port and later General Manager Christmas Creek, overseeing the ramp up of operations at both sites.

With more than 20 years of industry knowledge, Mr Swiericzuk's previous experience is diverse and includes material handling, rail, port, steelworks in Australia and Indonesia.
Mr Swiericzuk holds a Bachelor of Engineering degree (Honours in Mining and Mineral Engineering) and a Master of Business Administration.

Alison Terry
Company Secretary and Group Manager Corporate Affairs

Ms Terry was appointed Company Secretary in February 2017, after joining Fortescue in 2013 as Group Manager Corporate Affairs.

With significant experience in corporate affairs, legal, company secretarial and general management, Ms Terry has previously held senior executive and Board roles across a number of sectors including automotive, telecommunications and superannuation.

Ms Terry holds Bachelor of Economics and Bachelor of Laws (Honours) and a Graduate Diploma of Business (Accounting).

Rob Watson
Group Manager Health and Safety

Mr Watson was appointed Group Manager Health and Safety in 2014 after joining Fortescue in 2011. Prior to this Mr Watson spent 15 years in a number of senior corporate health and safety roles in large mining companies.

His career in health and safety spans over 25 years in a number of industries and commodities. Mr Watson holds a Masters in Occupational Health and Safety.

Nick Cernotta
Director Operations

Mr Cernotta was appointed as Director, Operations in March 2014 with more than 30 years experience in the mining industry, spanning various commodities and operations in Australia, Africa, South East and Central Asia, Saudi Arabia and Papua New Guinea.

Mr Cernotta resigned from Fortescue on 31 January 2017.

Peter Lynch
Director Business Development

It is with great sadness to report that Mr Peter Lynch, Fortescue's Business Development Director tragically died in an aircraft incident in Perth on January 26, 2017.

Mr Lynch joined Fortescue in June 2016 with over 28 years' of experience in the Australian and global mining sector including coal, copper, gold, lead, and zinc.

In his short time at Fortescue, Peter had already been integral in the development of Fortescue's exploration projects and was an impressive leader who loved to recognise his team for their efforts.

Fortescue would like to extend its deepest sympathies to the family, friends and colleagues of Peter once again; he is deeply missed by everyone at Fortescue.

For personal use only

OPERATING AND FINANCIAL REVIEW



Overview

For personal use only

Operating and financial highlights

For personal use only

PRODUCTION

170.4

MILLION TONNES

C1 COSTS

US$12.82/WMT

REVENUE

US$8.4 BILLION

CASH ON HAND

US$1.8 BILLION

UNDERLYING EBITDA

US$4.7 BILLION

DEBT REPAYMENTS

US$2.7

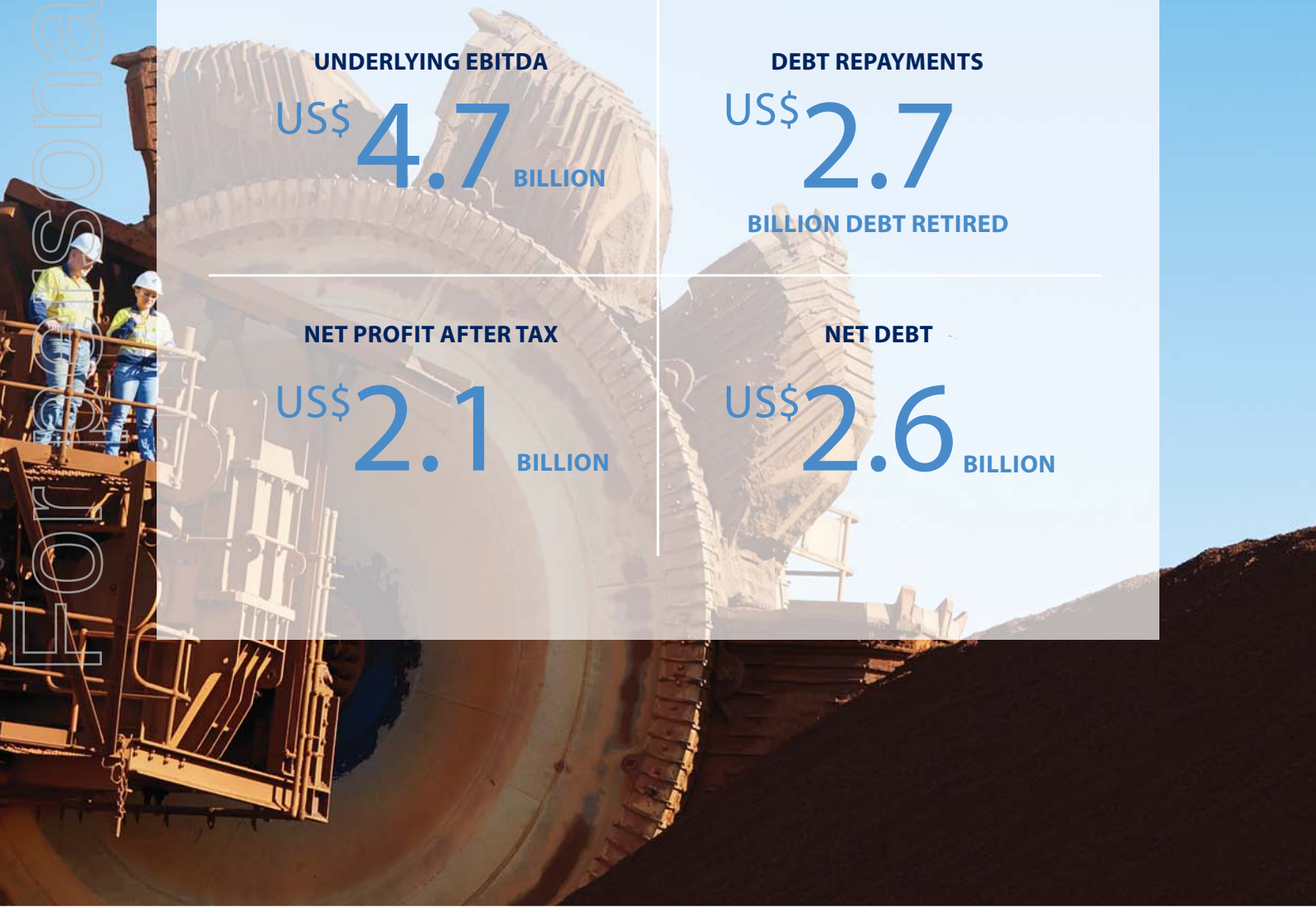
BILLION DEBT RETIRED

NET PROFIT AFTER TAX

US$2.1 BILLION

NET DEBT

US$2.6 BILLION



Overview of operations



Solomon Hub

The Solomon Hub in the Hamersley Ranges is located 60 kilometres (km) north of Tom Price and 120km to the west of Fortescue's Chichester Hub. It comprises the Firetail and Kings Valley mines which together have production capacity of 70 to 75 million tonnes per annum (mtpa). Solomon represents a valuable source of production by blending higher grade, low cost Firetail ore with low phosphorous Chichester ore to create the high quality Fortescue blend.

Fortescue successfully deployed CAT autonomous haulage technology (AHS) at the Solomon Hub in 2012, achieving a 20 per cent improvement in productivity.

During the year, Fortescue announced the expansion of AHS at both the Kings Valley and Firetail mines to further improve productivity across the site.

Chichester Hub

The Chichester Hub in the Chichester Ranges, comprising the Cloudbreak and Christmas Creek mines, has an annual production capacity of 100mtpa from three Ore Processing Facilities (OPFs). Consistent and sustained output delivered from the OPFs has allowed Fortescue to continue optimisation of its product strategy through enhanced blending and beneficiation, increasing iron upgrades and reducing impurities. This has resulted in lower mining cut-off grades, further optimising ore bodies and sustainably reducing strip ratios.

During FY17, Fortescue's Integrated Operations Centre (IOC) in Perth expanded to include Christmas Creek and Cloudbreak's mine control, as well as Christmas Creek's mine planning. The remote operation utilises the latest technology and ensures improved safety, reliability and efficiency of the operation.

Building on the success of AHS at the Solomon Hub, the implementation plan for the rollout of AHS at the Chichester Hub from FY18 is underway. The Company is also investing in an innovative relocatable conveyor to be trialled at the Cloudbreak mine.





For personal use only



For personal use only

Port and Rail

Fortescue wholly owns and operates its purpose designed rail and port facilities, constructed to deliver iron ore from its mines to Port Hedland and on to its customers. Covering 620km of track, the railway is the fastest, heavy haul line in the world.

The efficient design and layout, optimal berthing configuration and ongoing innovation to increase productivity makes Fortescue's port the most efficient bulk port operation in Australia. The port has five operating berths and is capable of efficiently exporting more than 170mtpa.

A natural extension of Fortescue's supply chain, the Company's ore carriers were designed to complement the industry leading efficiency of Fortescue's port. FMG Nicola, Grace, Sophia and Sydney made their maiden voyage into Herb Elliot Port in FY17. The remaining four vessels will be delivered by mid-2018.



Iron Ore projects

Firetail is an important component of the Fortescue Blend product and the replacement strategy will ensure the Company maintains the integrity and quality of its product range. During FY17, Fortescue continued to study all options for the Firetail replacement project with a decision between the Western Hub and Nyidinghu expected during FY18.

Iron Bridge, located 100km south of Port Hedland, is a joint venture between Fortescue, Taiwan's Formosa Group and China's Baosteel Resources Ltd, a subsidiary of China's Baowu Group incorporating the world class North Star and Glacier Valley Magnetite ore bodies. Building on the development of a large scale pilot plant and successful testing of an innovative, low cost production process already completed, future developments will deliver product via a pipeline to storage and handling facilities in Port Hedland. This will be subject to market conditions and approval by joint venture partners.

Exploration

Fortescue holds the largest tenement portfolio in the Pilbara. Details of the Company's reserves and resources are summarised in the Ore Reserves and Minerals Resources Report on pages 29 to 42. Exploration activity in FY17 was primarily focussed on Fortescue's iron ore tenements to maintain mine life and sustain product quality in the Company's core iron ore business.

During the year Fortescue continued to undertake early stage, low cost exploration on copper-gold prospective tenements in South Australia and New South Wales and assessed high potential, early stage exploration tenements in Ecuador, where Fortescue was granted 32 exploration areas. This exploration is in line with Fortescue's strategy of focussing on its core iron ore business while creating low cost future optionality.

For personal use only

Key performance indicators



Improved Safety

33% ↑

2.9 Total recordable injury frequency rate

Consistent Production

1% ↑

170.4 mt

Reduced Cost

17% ↓

US$12.82 /wmt

Fortescue's FY17 results demonstrate the continued focus on fundamental business drivers and delivered consistent performance across all operations.

Fortescue's teams continue to innovate and deliver excellent progress on key areas within the Company's control as it implements its vision of being the safest, lowest cost, most profitable iron ore producer, including:

- Significant improvement in safety performance
- Sustainable production delivering maximum value from the Company's assets
- Consistent drive to lower costs and improve productivity and efficiency.

In FY17, Fortescue delivered on each of these key strategic targets and continued to reduce its debt, invest in its core iron ore business and deliver returns to shareholders.



Key performance indicators

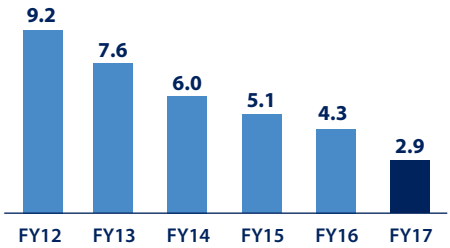
Safety

The health and safety of Fortescue's people is at the heart of the Company's values and its commitment to becoming a global leader in safety.

Fortescue's Total Recordable Injury Frequency Rate (TRIFR), used as a measure of its safety performance, has been progressively reducing year-on-year, including a 33 per cent reduction in FY17 to 2.9.

The Company is focussed on delivering progressive improvement in its safety performance and promoting the behaviour to always look out for your mates and yourselves to achieve its vision of zero injury and harm across the entire business.

Total Recordable Injury Frequency rate



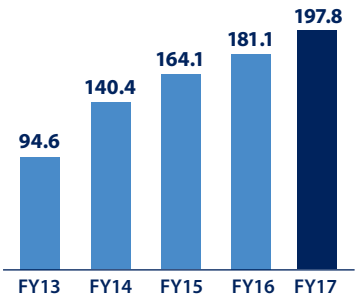
Production

In FY17, Fortescue achieved production records across mining, shipping and processing while continuing to lower costs.

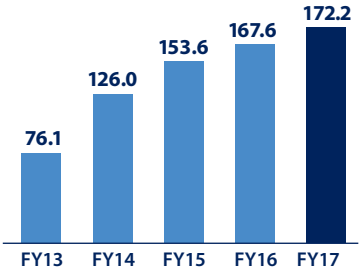
This demonstrates the consistent delivery of outstanding operational performance across all aspects of the business. Production and shipments on a wet metric tonnes basis are outlined below.

12 months to 30 June 2017 (million tonnes)	2017	2016	Movement (%)
Ore mined	197.8	181.1	+9
Overburden removed	204.9	195.9	+5
Ore processed	172.2	167.6	+3
Shipments – Fortescue mined ore	170.4	166.8	+2
Shipments – Fortescue equity ore	170.4	167.4	+2
Total ore shipped including third party product	170.4	169.4	+1

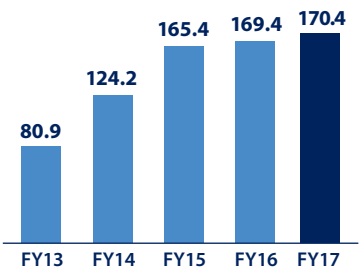
Mining, million tonnes (wmt)



Processing, million tonnes (wmt)



Shipments, million tonnes (wmt)



Mining volumes and processing throughput continue to support shipments of 170mt per year. Iron ore stockpiles at the mines and product stocks at the ore processing facilities and at Port are maintained at optimum levels to support production targets and continue to be managed closely to ensure product quality and specifications.

Strip ratios across the business were maintained at 1.0 in FY17. Fortescue continues to meet customer demands through its wet processing capability, achieving sustained improvements in metallurgical upgrades through the OPFs, as well as plant reliability.

The efficiency of Fortescue's rail and port infrastructure supported the Company's mining and processing operations through FY17. Fortescue's focus remains on maximising the value of its ore bodies and infrastructure assets through beneficiation, operating efficiencies and productivity improvements.

For personal use only

For personal use only

Key performance indicators

Costs

Fortescue's focus on productivity and efficiency has again lowered C1 costs demonstrated by operational excellence across mines, OPFs and infrastructure.

C1 costs averaged US$12.82/wmt in FY17, a 17 per cent improvement over the prior year. This result includes an average C1 cost of US$12.16/wmt for the June quarter. Fortescue's C1 cost reduction journey is illustrated below.

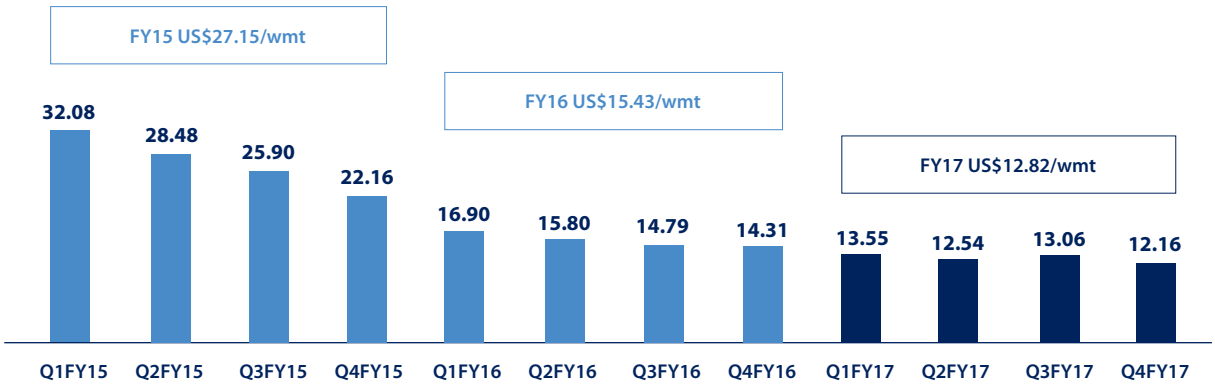
Progressive cost reductions delivered by Fortescue in recent years represent sustainable, long term improvements in operating costs, supporting life of mine in excess of 20 years.

Key focus areas which have contributed to a 17 per cent improvement in C1 costs during the year include:

- OPF performance, with improved upgrades and yields, enhanced plant reliability and shutdown optimisations
- Mine planning, design and mining methodology
- Cross-site operational collaboration
- Contractor insourcing programs
- Procurement initiatives to maximise the value of products and services purchased
- Mining equipment and labour productivity
- Use of autonomous technology.

As the Company continues to focus on innovation, productivity and efficiencies, the full year FY18 C1 cost is estimated at US$11-12/wmt, based on an assumed Australian dollar exchange rate of 0.75 and oil price of US$53 per barrel (WTI).

C1 cost reduction journey, US$/wmt





Fortescue celebrated the delivery of its first four ore carriers during FY17.

FMG Nicola, Grace, Sophia and Sydney were constructed at Jiangsu's Yangzijiang Shipyard, reflecting close relationships in China, its largest market.

The ore carriers are a natural extension of the Company's supply chain and will play a significant role in increasing efficiencies at Port and lowering costs. Designed to maximise the tonnage per ship and improve loading rates, the ships will also enable the safe manoeuvring within the port and the channel. A further four ore carriers are being built at Guangzhou Shipyard International, with delivery of the final vessel expected in mid-2018. When fully operational, the fleet will provide approximately 12 per cent of Fortescue's total shipping requirements.

Financial results and position

Fortescue's financial performance improved in FY17 with strong operational results increasing margins and generating strong free cash flows.

These financial outcomes demonstrate consistency of operations, productivity and an unwavering focus on efficiency with the emphasis on maximising the benefits of technology and innovation. Free cash flows generated by operations has been consistently applied to debt reductions, strengthening Fortescue's balance sheet and maximising shareholder returns.

Key metrics		2017 US$m	2016 US$m
Revenue		8,447	7,083
Underlying EBITDA[1]		4,744	3,195
Net profit after tax		2,093	985
Earnings per share	**US cents**	**67.3**	**31.6**
Cash from operating activities		4,256	2,446
Capital expenditure – Fortescue		716	304
Free cash flows		**3,540**	**2,142**
Cash and cash equivalents		1,838	1,583
Debt		4,471	6,771
Net debt		**2,633**	**5,188**
C1 costs	**US$/wmt**	**13**	**15**
Key ratios		**%**	**%**
Gearing		31	45
Net gearing		21	38
Underlying EBITDA margin		56	45
Return on equity		23	12

[1] Refer to page 23 for the definition and reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards.

For personal use only

For personal use only

Financial results and position

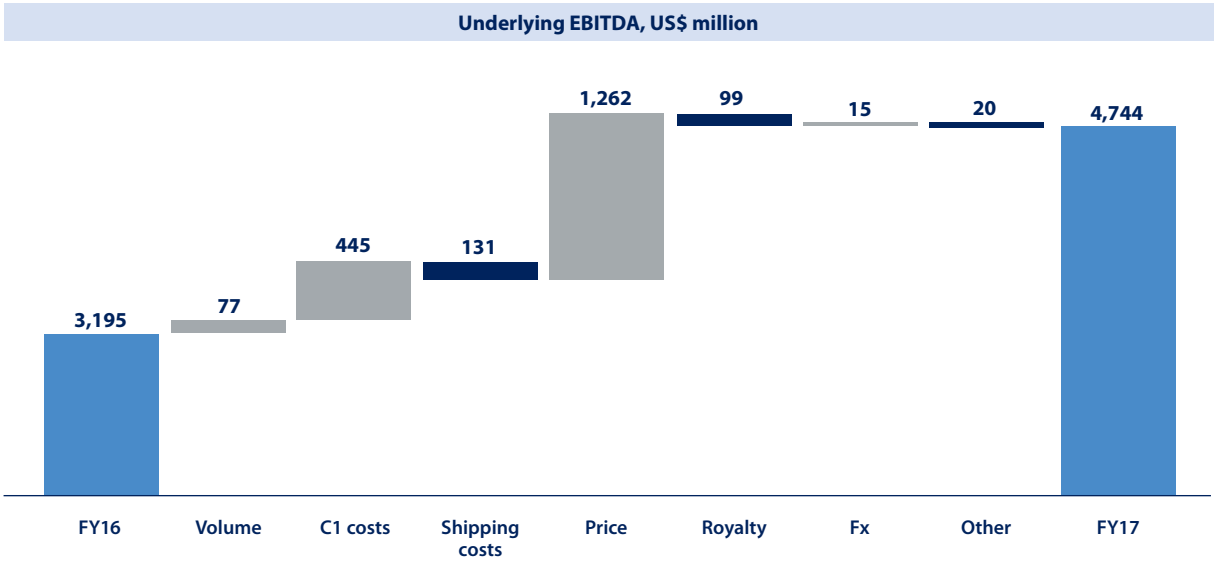
Financial performance

In FY17, Fortescue delivered net profit after tax of US$2,093 million and earnings per share of 67.3 cents (FY16: US$985 million and 31.6 cents). This result reflects a significant improvement in operating margins and reduced financing expenses.

Underlying EBITDA

Underlying EBITDA, is a key measure of Fortescue's financial performance and is defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses. In FY17, Fortescue's operations generated Underlying EBITDA of US$4,744 million (FY16: US$3,195 million). The reconciliation of Underlying EBITDA to the financial metrics reported in the financial statements under Australian Accounting Standards is presented below.

The 48 per cent improvement in Underlying EBITDA reflects improved iron ore prices and the delivery of C1 operating cost reductions contributing US$1,262 million and US$445 million to the result respectively, as illustrated below.



	Note[1]	2017 US$m	2016 US$m
Operating sales revenue	3	8,447	7,083
Cost of sales excluding depreciation and amortisation	5	(3,661)	(3,841)
Net foreign exchange gain (loss)	4,6	13	(2)
Administration expenses	6	(56)	(52)
Other income	4	1	7
Underlying EBITDA		**4,744**	**3,195**
Finance income	7	19	214
Finance expenses	7	(502)	(675)
Depreciation and amortisation	5,6	(1,243)	(1,244)
Exploration, development and other	6	(51)	(136)
Net profit before tax		**2,967**	**1,354**
Income tax expense	14	(874)	(369)
Net profit after tax		**2,093**	**985**

[1] Notes to the accompanying financial statements

Financial results and position

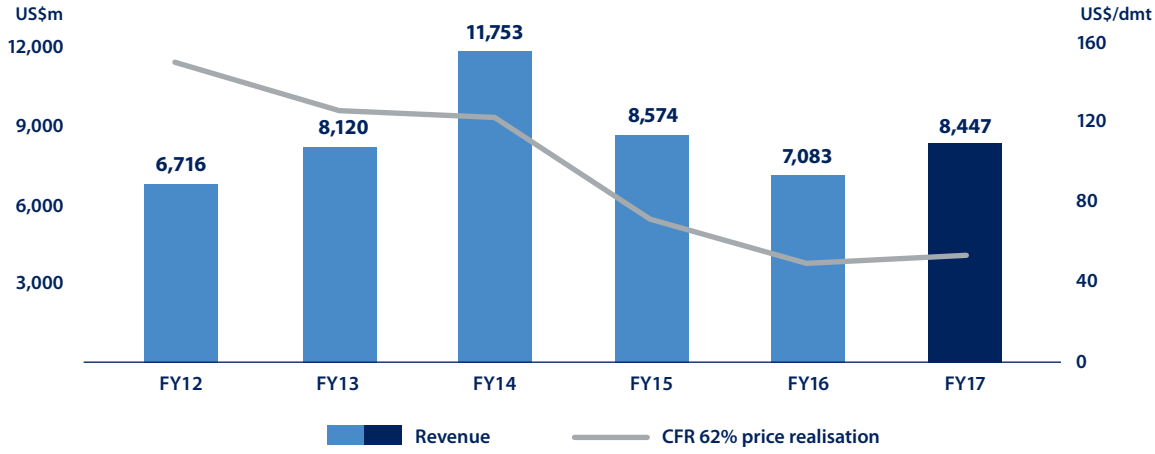
Revenue

	Note[1]	2017 US$m	2016 US$m
Sale of iron ore	3	8,335	6,923
Other revenue	3	112	136
Sale of joint venture ore	3	-	24
Operating sales revenue		**8,447**	**7,083**
Shipments – Fortescue mined ore	mt	170.4	166.8
Shipments – Fortescue's share of joint venture ore	mt	-	0.6
62% Fe CFR Platts index	US$/dmt	70	51
Revenue realised	**US$/dmt**	**53**	**45**

[1] Notes to the accompanying financial statements.

In FY17, Fortescue realised US$53/dmt (FY16: US$45/dmt), based on the 62 per cent CFR Platts index of US$70/dmt (FY16: US$51/dmt).

Revenue and realisation

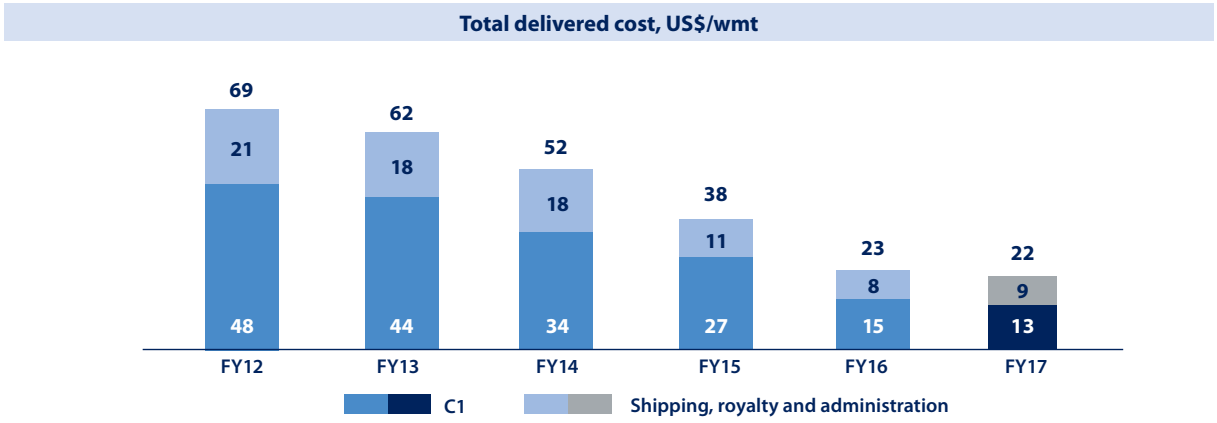


In FY17, Fortescue delivered net profit after tax of US$2,093 million and earnings per share of 67.3 cents (FY16: US$985 million and 31.6 cents). This result reflects a significant improvement in operating margins and reduced financing expenses.

For personal use only

Production costs

Total cost of product delivered to customers, inclusive of C1 costs, shipping, state government royalties and administration charges, was US$22/wmt (FY16: US$23/wmt).



The reconciliation of C1 costs and total delivered costs to customers to the financial metrics reported in the financial statements under Australian Accounting Standards is presented below.

	Note[1]	2017 US$m	2016 US$m
Mining and processing costs	5	1,780	2,092
Rail costs	5	192	201
Port costs	5	183	204
Operating leases	5	29	76
C1 costs, US$ million		2,184	2,573
Shipments – Fortescue mined ore, mt		**170.4**	**166.8**
C1, US$/wmt		**13**	**15**
Shipping costs	5	929	781
Government royalty[2]	5	545	446
Administration expenses	6	56	52
Shipping, royalty and administration, US$/wmt		9	8
Total delivered cost, US$/wmt		**22**	**23**

[1] Notes to the accompanying financial statements.

[2] Fortescue pays a 7.5 per cent state government royalty for the majority of its iron ore products, with a concession rate of five per cent applicable to beneficiated fines.

Key factors contributing to the FY17 operating costs performance are discussed on page 21.

For personal use only

Financial results and position

Non-operating costs

Key non-operating costs forming part of the financial result include:

- Net loss on early redemption of US$59 million (FY16: net gain of US$150 million)
- Interest expense of US$430 million reduced by US$191 million compared to the prior year of US$621m, following debt repayments of US$2.7 billion in FY17 (FY16: US$2.7 billion)
- Depreciation and amortisation expenses of US$1,243 million (FY16: US$1,244 million)
- Income tax expense for the year of US$874 million at an effective income tax rate of 29 per cent (FY16: US$369 million at a rate of 27 per cent).

Balance sheet strength

Generation of free cash flow through consistent operating performance combined with improved market conditions and sustainable cost reductions across operations enabled Fortescue to repay US$2.7 billion of debt and refinance an additional US$1.5 billion during the year. The Company's net gearing ratio has reduced to 21 per cent while extending its earliest debt maturity to 2022.

Key metrics

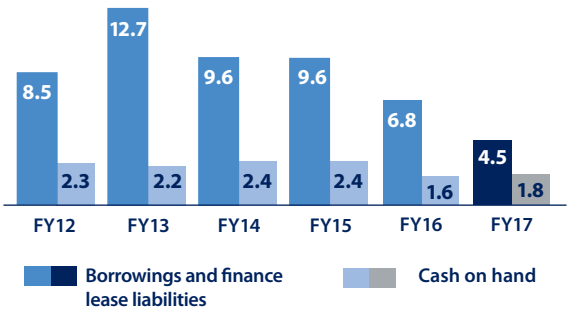
At 30 June 2017, Fortescue's net debt position was US$2,633 million (FY16: US$5,188 million), inclusive of finance leases and cash on hand.

	Note[1]	2017 US$m	2016 US$m
Borrowings	9(a)	3,653	6,266
Finance lease liabilities	9(a)	818	505
Cash and cash equivalents	9(b)	(1,838)	(1,583)
Net debt		**2,633**	**5,188**
Equity		9,734	8,406
Gearing		**31%***	**45%**
Net gearing		**21%***	**38%**

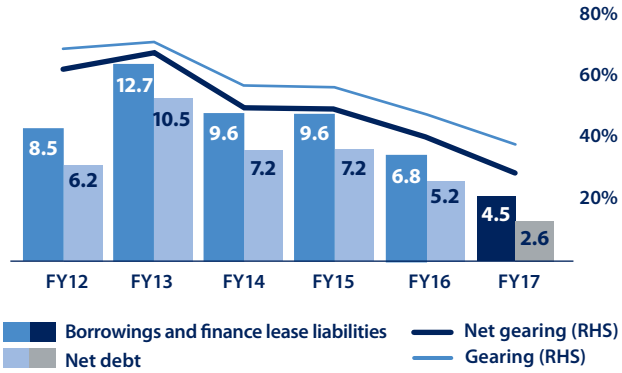
[1] Notes to the accompanying financial statements.

* This is calculated on debt plus equity.

Cash and debt, US$ billion



Gearing and net gearing



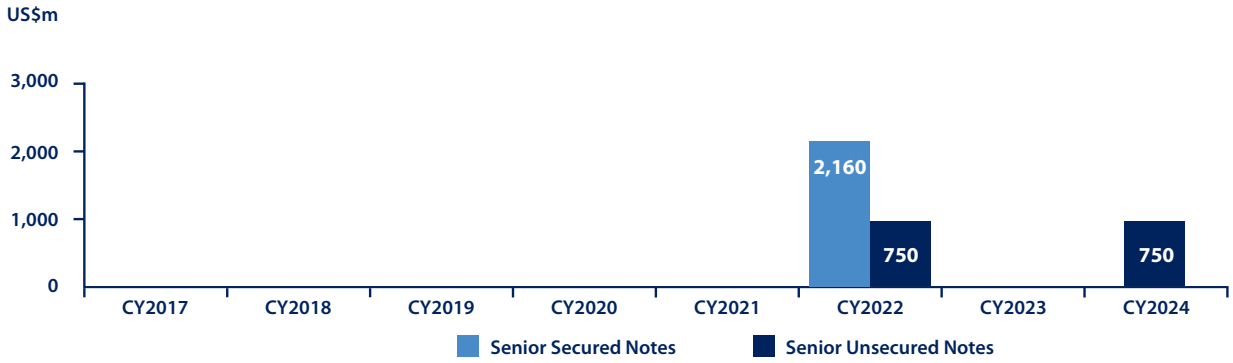
For personal use only

Financial results and position

Debt profile

The Company's debt maturity profile at 30 June 2017 is set out below. Fortescue maintains a flexible debt portfolio with no financial maintenance covenants across all instruments.

Debt maturity profile



Ore carrier facility

During the year, Fortescue completed an agreement with the China Development Bank Financing Leasing Co., Ltd to finance the construction costs for eight ore carriers. The finance lease facility of US$473 million will fund 85 per cent of the ore carriers' costs for a minimum of 12 years on highly flexible terms, including early repayment and extension options. At 30 June 2017, US$234 million of the facility has been utilised following delivery of the first four ore carriers during the year. The remaining funds under the facility will be drawn on progressively on delivery of each ship.

This transaction is an important milestone in Fortescue's funding strategy, building and broadening the Company's relationships with China, and represents the largest direct funding arrangement provided by a major Chinese financier for a non-Chinese company in Australia.

Cash flow generation and capital discipline

Fortescue's strong free cash flow performance during the year reflects improved positive cash margins together with a focus on working capital efficiencies and disciplined capital management. Free cash flow, representing net cash proceeds generated by operations after capital allocations, has improved by 65 per cent to US$3,540 million.

	2017 US$m	2016 US$m
Cash flows from operating activities	4,256	2,446
Capital expenditure – Fortescue	(716)	(304)
Free cash flow	**3,540**	**2,142**

Cash and cash equivalents at 30 June 2017 were US$1,838 million compared to US$1,583 million at 30 June 2016, with the key cash movements for the financial year outlined on the next page.

For personal use only

Financial results and position

Cash generated by operations

Key factors contributing to the 74 per cent improvement in operating cash inflows to US$4,256 million (FY16: US$2,446 million):

- 19 per cent increase in revenue as a result of improved iron ore price
- 17 per cent reduction in C1 costs
- Net increase in customer prepayments of US$223 million (FY16: net decrease of US$312 million) with US$500 million received offset by US$275 million amortisation through delivery of iron ore during the year
- Lower interest payments of US$412 million (FY16: US$599 million) as debt repayments continued in FY17
- Income tax payments of US$375 million were made during the year including US$267 million attributable to FY16. The final FY17 payment of US$685 million is scheduled for December 2017.

Capital expenditure

Fortescue's capital expenditure for the year increased to US$716 million (FY16: US$304 million):

- Includes sustaining capital of US$354 million, US$260 million ore carrier construction, US$63 million development capital and US$39 million on exploration
- Maintenance capital is closely managed to ensure sustainability of operations and delivery of maximum value from the Company's world class assets, with sustaining capital estimated at US$3/wmt in FY18.
- Joint venture capital expenditure of US$13 million (FY16: US$56 million) relates to the Iron Bridge project and has been predominantly funded by Formosa Plastics Group.

Commitment to debt reduction

Fortescue's debt reduction strategy continued in FY17 as the Company applied free cash flow to debt reduction. Fortescue's net financing cash outflows increased to US$3,282 million (FY16: US$2,863 million):

- Debt repayments of US$2,687 million (FY16: US$2,695 million)
- Refinancing of US$1,500 million and receipt of US$234 million from the ore carrier facility
- Dividend payments of US$755 million (FY16: US$114 million).

Dividends and shareholder return

Earnings have improved to 67.3 cents per share with return on equity of 23 per cent delivered during the year (FY16: 31.6 cents per share and 12 per cent respectively).

		2017 US$m	2016 US$m
Net profit after tax	US$m	2,093	985
Earnings per share	US cents	67.3	31.6
Return on equity		23%	12%
Interim dividend	AUD cents per share	20	3
Final dividend	AUD cents per share	25	12
Total dividend	AUD cents per share	45	15
Dividend payout ratio		52%	36%

Total dividend of 45 Australian cents per share represents a 52 per cent dividend payout ratio.

For personal use only

ORE RESERVES AND MINERAL RESOURCES



FY17 Update

For personal use only

Ore reserves and mineral resources report

For personal use only

Ore Reserves and Mineral Resources

Reporting is grouped by operating and development properties and includes both Hematite and Magnetite deposits.

Hematite Ore Reserves total 2.19 billion tonnes (bt) at an average iron (Fe) grade of 57.2 per cent. Combined Hematite Mineral Resources total 13bt at an average Fe of 56.8 per cent.

Magnetite Ore Reserves total 0.7bt at an average mass recovery of 27.2 per cent for a 67 per cent Fe grade product. Magnetite Mineral Resources total 7.9bt at an average mass recovery of 23.3 per cent.

Operating property Ore Reserves and Mineral Resources have all been reported to the Joint Ore Reserves Committee (JORC) 2012 standard. Accordingly, the information in these sections should be read in conjunction with the respective explanatory Mineral Resource and Ore Reserve information (Fortescue ASX release dated 18 August 2017). Development property Mineral Resources are a combination of JORC 2012 and JORC 2004 estimates. Those development property Mineral Resources reported to JORC 2012 standard are identified in the Fortescue ASX releases on 18 August 2017, 8 January 2015 and 20 May 2014 that includes the supporting technical data. The remaining JORC 2004 Mineral Resource estimates will be progressively updated to the JORC 2012 standard as development priorities dictate.

Magnetite Mineral Resources have been updated and reported to the JORC 2012 standards. The Mineral Resources quoted in this report should be read in conjunction with the supporting technical data contained in the corresponding ASX release dated 18 August 2017.

The Ore Reserve and Mineral Resource estimation processes followed internally are well established and are subject to systematic internal peer review, including calibration against operational outcomes. Independent technical reviews and audits are undertaken on an as-required basis as an outcome of risk assessment. An independent audit of the Valley of the Kings Resource Model was conducted in December 2016.

In addition to routine internal audit, auditing of the estimation of Mineral Resources and Ore Reserves is addressed as a sub-set of the annual internal audit plan approved by the Board Audit and Risk Management Committee (ARMC). Specific audit of the Ore Reserve process was performed in 2011, 2013, 2015, 2016 and 2017. These audits were managed by Fortescue's internal audit service provider with external technical subject experts. The 2015, 2016 and 2017 Ore Reserves audits were carried out by independent external technical consultants.

The ARMC also monitors the Ore Reserve and Mineral Resource status and approves the final outcome. The annual Ore Reserves and Mineral Resource update is a prescribed activity within the annual Corporate Planning Calendar that includes a schedule of regular Executive engagement meetings to approve assumptions and guide the overall process.

Tonnage and quality information contained in the following tables have been rounded and as a result the figures may not add up to the totals quoted.

Ore Reserves Operating Properties – Hematite

The 2017 combined Chichester and Solomon Hematite Ore Reserve is a total of 2,191 million dry tonnes (mt) at an average iron (Fe) grade of 57.2 per cent.

Ore Reserves are quoted on a dry product basis while Mineral Resources are quoted on a dry in-situ basis. (Company production and sales reporting is based on wet tonnes. The typical free moisture content of shipped products is nine per cent).

The Ore Reserve is quoted as at 30 June 2017 and is inclusive of ore and product stockpiles at mines. Product stockpiles at port have been excluded from contributing to Ore Reserves. The proportion of higher confidence Proved Ore Reserve has remained essentially unchanged (reducing from 755mt to 746mt) as a result of ongoing in-fill drilling at both the Solomon and the Chichester deposits.

The Chichester Hub (Cloudbreak and Christmas Creek deposits) contains 1,517mt at an average Fe grade of 57.2 per cent, an increase of 73mt due to change in pit geometry at Cloudbreak, inclusion of the Kutayi eastern extension in the Christmas Creek Life of Mine plan and on-going grade control drilling. Proved Ore Reserve constitutes 42 per cent of Chichester Ore Reserve. While the Cloudbreak and Christmas Creek deposits are quoted separately for historical reasons, they effectively represent a single deposit with ore generally directed to the most proximal of the three available ore processing facilities (OPFs).

The Ore Reserve estimate for the Solomon Hub is 674mt at an average Fe grade of 57.3 per cent, a decrease of 55mt due to production but with an increase in ore quality. A number of higher grade additions have been made to Solomon Ore Reserves over the last 12 months, including brownfields extensions of the Firetail and Kings deposits. Solomon Ore Reserve consists of 17 per cent of the tonnage in the Proved Ore Reserve category.

The 2017 Hematite Ore Reserve estimates were subject to comprehensive review and update addressing:

- Revisions to the Cloudbreak pit geometry (increase)
- Addition of the Kutayi deposit to the Christmas Creek resource base (increase)
- Addition of the Pinnacles, Radio Tower Hill and Frederick deposits to the Solomon resource base (increase)
- Revisions of ore loss and dilution factors based on 12 months of operational history at all mines (minor)
- Revisions to the processing response through all Ore Processing Facilities (OPFs) based on updated test work and operational history (minor)
- Ore depletion as a result of sales (decrease)
- Re-optimisation of mine geometries to maximise the benefit of cost reductions across all Fortescue operations and new additions to the resource base
- A revised life of mine (LOM) plan that addresses the listed items and incorporates the latest information on long term product strategy and mining and processing reconciliation trends.

For personal use only

Hematite Ore Reserves – as at 30 June 2017

	June 2017						June 2016					
	Product Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %	Product Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %
Cloudbreak												
Proved	304	57.5	5.21	2.81	0.052	8.49	291	57.6	5.15	2.82	0.054	8.50
Probable	289	57.2	5.97	2.75	0.058	8.00	249	57.1	5.95	2.84	0.059	7.97
Total	**593**	**57.4**	**5.58**	**2.78**	**0.055**	**8.25**	**541**	**57.3**	**5.52**	**2.83**	**0.056**	**8.25**
Christmas Creek												
Proved	326	57.1	5.86	2.81	0.043	7.81	325	57.4	5.73	2.77	0.043	7.47
Probable	597	57.0	5.96	3.03	0.047	7.57	579	57.1	5.62	3.05	0.049	7.34
Total	**924**	**57.0**	**5.93**	**2.95**	**0.046**	**7.66**	**904**	**57.2**	**5.66**	**2.95**	**0.047**	**7.38**
Sub-total Chichester Hub												
Proved	631	57.3	5.54	2.81	0.047	8.14	616	57.5	5.45	2.79	0.048	7.96
Probable	886	57.1	5.96	2.94	0.051	7.71	828	57.1	5.72	2.99	0.052	7.53
Total	**1,517**	**57.2**	**5.79**	**2.88**	**0.049**	**7.89**	**1,444**	**57.3**	**5.61**	**2.91**	**0.050**	**7.71**
Firetail												
Proved	13	59.0	5.57	2.40	0.114	7.18	19	58.4	5.79	2.70	0.127	7.29
Probable	112	59.3	5.75	2.53	0.107	6.38	100	59.2	5.83	2.51	0.111	6.23
Total	**125**	**59.2**	**5.73**	**2.51**	**0.107**	**6.46**	**119**	**59.1**	**5.82**	**2.54**	**0.113**	**6.40**
Kings and Queens												
Proved	103	56.3	6.60	2.40	0.073	9.95	120	56.0	6.81	2.51	0.077	10.15
Probable	446	56.9	6.36	2.61	0.064	9.13	489	56.6	6.85	2.73	0.062	8.87
Total	**548**	**56.8**	**6.40**	**2.57**	**0.065**	**9.29**	**609**	**56.5**	**6.85**	**2.69**	**0.065**	**9.12**
Sub-total Solomon Hub												
Proved	116	56.6	6.48	2.40	0.078	9.64	138	56.3	6.67	2.53	0.084	9.76
Probable	558	57.4	6.23	2.59	0.072	8.58	590	57.1	6.68	2.69	0.070	8.42
Total	**674**	**57.3**	**6.28**	**2.56**	**0.073**	**8.76**	**728**	**56.9**	**6.68**	**2.66**	**0.073**	**8.67**
Total Hematite Ore Reserves												
Proved	746	57.2	5.69	2.75	0.052	8.37	755	57.3	5.68	2.74	0.055	8.29
Probable	1,444	57.2	6.07	2.80	0.059	8.05	1,418	57.1	6.12	2.87	0.059	7.90
Total	**2,191**	**57.2**	**5.94**	**2.78**	**0.057**	**8.16**	**2,173**	**57.2**	**5.97**	**2.82**	**0.058**	**8.03**

Notes in reference to table

- The diluted mining models used to report the 2017 Ore Reserves are based on Christmas Creek Mineral Resource model completed in 2016, Firetail Mineral Resource model revised in 2014, Cloudbreak Mineral Resource model completed in 2016 and Kings Mineral Resource model released in 2017. Diluted mining models are validated by reconciliation against historical production.
- Proved Ore Reserves are inclusive of ore stockpiles at the mines totalling approximately 20.8mt on dry product basis.
- The Chichester Ore Reserve is inclusive of the Cloudbreak, Christmas Creek and Kutayi Bedded Iron Deposits. Selected Christmas Creek Ore Reserves will be directed to the Cloudbreak OPF to optimise upgrade performance and balance Cloudbreak and Christmas Creek OPF lives.
- Ore Reserve in-situ Fe cut-off grades are an outcome of scheduling and vary by ore type and deposit through time.



For personal use only

Ore reserves and mineral resources report

Ore Reserves – Magnetite

The 2017 Ore Reserves for Magnetite are from the Iron Bridge project. Ore Reserves for the project total 705mt at an average mass recovery of 27.2 per cent for a 67 per cent Fe grade product.

The Magnetite Ore Reserve is quoted as at 30 June 2017. Ore Reserves are quoted on a dry in-situ tonnes basis prior to processing.

No Company sales or production have occurred for Magnetite as at 30 June 2017. Price forecasting has been based on a dry tonnage basis. When shipping occurs production will be quoted in wet tonnes. The typical free moisture content of shipped products is nine per cent.

All Magnetite Ore Reserves are classified as Probable Ore Reserves. These have been estimated from Indicated plus Measured Mineral Resources from within the North Star mining study pit. Additional Indicated Mineral Resources from outside the study pit (including the Eastern Limb, Glacier Valley and West Star deposits) have not been included in these Ore Reserves.

The Magnetite Ore Reserves have been estimated by independent consultants (Golder Associates) using detailed information on mining parameters, geotechnical studies, metallurgical processing, and financial analysis taken from the Iron Bridge feasibility study.

Magnetite Ore Reserves – as at 30 June 2017

	June 2017					June 2016				
	In-Situ Tonnes (mt)	DTR mass recovery %	Product iron Fe %	Product Silica SiO_2 %	Product Alumina Al_2O_3 %	In-Situ Tonnes (mt)	DTR mass recovery %	Product iron Fe %	Product Silica SiO_2 %	Product Alumina Al_2O_3 %
North Star (60.72% Fortescue) - Eastern Limb currently not assessed										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	705	27.2	67.2	5.52	0.25	705	27.2	67.2	5.52	0.25
Total	**705**	**27.2**	**67.2**	**5.52**	**0.25**	**705**	**27.2**	**67.2**	**5.52**	**0.25**
Glacier Valley (60.72% Fortescue)										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
West Star (60.72% Fortescue)										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Magnetite Ore Reserves										
Proved	-	-	-	-	-	-	-	-	-	-
Probable	705	27.2	67.2	5.52	0.25	705	27.2	67.2	5.52	0.25
Total	**705**	**27.2**	**67.2**	**5.52**	**0.25**	**705**	**27.2**	**67.2**	**5.52**	**0.25**

Notes in reference to table

- Magnetite Ore Reserves are a result of a mining study only upon the North Star deposit. Utilising 705mt of Measured plus Indicated Mineral Resources reported within a defined pit design.
- All reporting is based on Mass Recovery expressed as a nine per cent Davis Tube Recovery (DTR) cut-off.
- All Ore Reserves are reported on a dry-tonnage basis.

Mineral Resources Operating Properties – Hematite

Mineral Resources for the operating properties including the Chichester and Solomon hubs are stated on a dry in-situ basis. The Mineral Resources are inclusive of that portion converted to Ore Reserves, including stockpiles.

As at 30 June 2017, the total Mineral Resource for the Chichester and Solomon hubs was 5,279mt at an average Fe grade of 56.0 per cent, a slight increase over that stated in the prior year. This was accompanied by a slight increase in the proportion of higher confidence Measured and Indicated Mineral Resource mineralisation from 70 per cent to 73 per cent as a result of infill drilling.

The Chichester Hub Mineral Resource totalled 3,170mt at an average Fe grade of 56.2 per cent, with 80 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.

The total Solomon Hub Mineral Resource totalled 2,109mt at an average Fe grade of 55.5 per cent, with 62 per cent of the tonnage in the Measured and Indicated Mineral Resource categories.

Hematite Mineral Resources (Operating Properties) – as at 30 June 2017

	June 2017						June 2016					
	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %
Cloudbreak												
Measured	478	56.7	5.60	3.45	0.056	8.6	514	56.8	5.48	3.40	0.055	8.6
Indicated	438	56.1	6.70	3.46	0.059	8.1	438	56.1	6.70	3.45	0.059	8.1
Inferred	138	56.3	6.46	3.53	0.052	7.8	138	56.3	6.47	3.53	0.052	7.8
Total	**1,055**	**56.4**	**6.17**	**3.46**	**0.057**	**8.3**	**1,090**	**56.5**	**6.10**	**3.44**	**0.057**	**8.3**
Christmas Creek												
Measured	522	56.9	6.12	3.12	0.047	8.0	535	57.0	6.15	3.07	0.047	8.0
Indicated	1,088	56.1	6.74	3.67	0.050	7.8	1,054	55.9	6.77	3.71	0.049	7.9
Inferred	505	55.6	7.09	3.74	0.054	7.8	480	55.5	7.12	3.73	0.054	7.9
Total	**2,115**	**56.2**	**6.67**	**3.55**	**0.050**	**7.9**	**2,069**	**56.1**	**6.69**	**3.55**	**0.050**	**7.9**
Sub-total Chichester Hub												
Measured	1,000	56.8	5.87	3.28	0.051	8.3	1,048	56.9	5.82	3.24	0.051	8.3
Indicated	1,526	56.1	6.73	3.61	0.053	7.9	1,492	56.0	6.75	3.64	0.052	7.9
Inferred	643	55.8	6.95	3.69	0.054	7.8	619	55.7	6.98	3.68	0.054	7.9
Total	**3,170**	**56.2**	**6.50**	**3.52**	**0.052**	**8.0**	**3,159**	**56.2**	**6.49**	**3.51**	**0.052**	**8.0**
Firetail												
Measured	21	58.1	5.43	2.93	0.128	7.9	32	57.7	5.91	3.18	0.128	7.7
Indicated	193	58.3	6.62	2.78	0.113	6.6	146	59.0	6.12	2.63	0.111	6.2
Inferred	134	57.2	7.34	3.36	0.107	7.0	132	57.3	6.92	3.38	0.108	7.1
Total	**348**	**57.9**	**6.83**	**3.01**	**0.111**	**6.8**	**310**	**58.2**	**6.44**	**3.01**	**0.111**	**6.8**
Kings and Queens												
Measured	196	55.0	7.81	2.92	0.086	9.9	222	55.2	7.31	2.90	0.091	10.1
Indicated	893	55.2	8.00	3.37	0.073	9.1	729	55.6	7.98	3.29	0.064	8.6
Inferred	671	54.9	8.22	3.60	0.079	9.0	836	55.5	7.78	3.48	0.076	8.7
Total	**1,761**	**55.1**	**8.06**	**3.41**	**0.076**	**9.2**	**1,788**	**55.5**	**7.81**	**3.33**	**0.073**	**8.8**
Sub-total Solomon Hub												
Measured	217	55.3	7.59	2.92	0.090	9.7	254	55.5	7.14	2.94	0.096	9.8
Indicated	1,087	55.7	7.75	3.27	0.080	8.7	876	56.2	7.67	3.18	0.072	8.2
Inferred	805	55.3	8.07	3.56	0.083	8.7	968	55.8	7.67	3.46	0.080	8.5
Total	**2,109**	**55.5**	**7.86**	**3.34**	**0.082**	**8.8**	**2,097**	**55.9**	**7.60**	**3.28**	**0.079**	**8.5**
Total Hematite Operational Mineral Resources												
Measured	1,218	56.6	6.18	3.21	0.058	8.6	1,307	56.4	6.05	3.17	0.059	8.6
Indicated	2,613	55.9	7.15	3.47	0.064	8.2	2,368	56.0	7.09	3.47	0.060	8.0
Inferred	1,448	55.5	7.58	3.62	0.070	8.3	1,587	55.7	7.40	3.55	0.070	8.2
Total	**5,279**	**56.0**	**7.04**	**3.45**	**0.064**	**8.3**	**5,261**	**56.0**	**6.93**	**3.42**	**0.063**	**8.2**

Notes in reference to table

- Chichester Hub Mineral Resources are quoted at a cut-off of 53.5 per cent Fe and Solomon Hub Mineral Resources are quoted at a cut-off grade of 51.5 per cent Fe.
- The Chichester Hub Mineral Resources now include those at Kutayi which were previously reported under Development Properties. Fortescue is yet to remodel BCI Mineral Resources.
- The Measured Mineral Resource estimate includes mine stockpiles totalling approximately 22mt.

For personal use only

For personal use only

Mineral Resources Development Properties – Hematite

Fortescue has announced a 1.4 billion tonnes (bt) addition to the Western Hub Mineral Resource as a result of exploration drilling, including increases to the existing Eliwana and Flying Fish deposits. This update to the development properties is reported to JORC 2012 standard as identified in the Fortescue ASX releases on 18 August 2017, 8 January 2015 and 20 May 2014 that includes the supporting technical data.

The Kutayi deposit in the Greater Chichester has been transferred to the Chichester operating properties. The consequent reduction in tonnes in the Greater Chichester Mineral Resources has been partly offset by increases in the Investigator and White Knight Mineral Resources as a result of additional drilling completed in these areas.

Hematite Mineral Resources (Development Properties) – as at 30 June 2017

	June 2017						June 2016					
	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %	In-Situ Tonnes (mt)	Iron Fe %	Silica SiO_2 %	Alumina Al_2O_3 %	Phos P %	Loss On Ignition LOI %
Greater Chichester												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	82	57.9	6.30	2.99	0.053	6.8
Inferred	433	56.4	7.10	3.77	0.058	7.0	409	57.0	6.66	3.61	0.059	6.8
Total	**433**	**56.4**	**7.10**	**3.77**	**0.058**	**7.0**	**491**	**57.1**	**6.60**	**3.51**	**0.058**	**6.8**
Greater Solomon												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	254	56.6	6.70	3.45	0.083	8.3	254	56.6	6.70	3.45	0.083	8.3
Inferred	2,404	56.8	6.93	3.71	0.081	7.2	2,404	56.8	6.93	3.71	0.081	7.2
Total	**2,658**	**56.8**	**6.91**	**3.69**	**0.082**	**7.3**	**2,658**	**56.8**	**6.91**	**3.69**	**0.082**	**7.3**
Western Hub												
Measured	-	-	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-	-	-
Inferred	2,125	57.9	5.53	2.93	0.094	7.9	740	59.1	5.21	2.88	0.091	6.5
Total	**2,125**	**57.9**	**5.53**	**2.93**	**0.094**	**7.9**	**740**	**59.1**	**5.21**	**2.88**	**0.091**	**6.5**
Nyidinghu												
Measured	23	59.6	3.56	2.21	0.139	8.0	23	59.6	3.56	2.21	0.139	8.0
Indicated	580	58.1	4.52	2.95	0.148	8.6	580	58.1	4.52	2.95	0.148	8.6
Inferred	1,860	57.2	5.00	3.36	0.147	8.8	1,860	57.2	5.00	3.36	0.147	8.8
Total	**2,463**	**57.4**	**4.87**	**3.25**	**0.147**	**8.8**	**2,463**	**57.4**	**4.87**	**3.25**	**0.147**	**8.8**
Total Development Mineral Resources												
Measured	23	59.6	3.56	2.21	0.139	8.0	23	59.6	3.56	2.21	0.139	8.0
Indicated	834	57.6	5.18	3.11	0.128	8.5	916	57.6	5.28	3.09	0.121	8.3
Inferred	6,823	57.2	5.98	3.38	0.102	7.9	5,416	57.3	6.01	3.47	0.104	7.6
Total	**7,680**	**57.3**	**5.89**	**3.35**	**0.105**	**7.9**	**6,353**	**57.4**	**5.90**	**3.41**	**0.107**	**7.7**

Notes in reference to table

- The Greater Chichester Mineral Resource includes the Investigator, White Knight and Mount Lewin deposits.
- The Greater Solomon Mineral Resource includes the Serenity, Sheila Valley, Mount MacLeod, Queens Extension, Cerberus, Stingray and Raven deposits.
- The Western Hub Mineral Resource includes the Eliwana, Flying Fish, Cobra, Lora, Zorb, Farquhar, Elevation, Boolgeeda CID and Wyloo North deposits.
- All Mineral Resources are quoted on an in-situ basis after applying an appropriate cut-off for each deposit. Details relating to the cut-offs were provided when each Mineral Resource was first announced.

For personal use only

Mineral Resources Development Properties – Magnetite

Mineral Resource updates for the North Star, West Star and Glacier Valley deposits (60.72 per cent Fortescue) were completed in 2017, incorporating additional drilling, including the results of an infill reverse circulation drilling campaign across all areas. This drilling has confirmed the tonnage of higher confidence Measured and Indicated Mineral Resources at North Star, Eastern Limb and Glacier Valley, which can potentially be converted to an Ore Reserve. Mineral Resources have improved across several deposits with infill drilling resulting in an increase to Indicated and Measured Mineral Resources in the North Star, Eastern Limb and Glacier Valley deposits.

Magnetite Mineral Resources – as at 30 June 2017

	June 2017					June 2016				
	In-Situ Tonnes (mt)	DTR mass recovery %	In-situ iron Fe %	In-situ Silica SiO_2 %	In-situ Alumina Al_2O_3 %	In-Situ Tonnes (mt)	DTR mass recovery %	In-situ iron Fe %	In-situ Silica SiO_2 %	In-situ Alumina Al_2O_3 %
North Star + Eastern Limb (60.72% Fortescue)										
Measured	77	28.6	32.4	39.44	1.91	76	28.7	32.4	39.42	1.90
Indicated	989	27.8	31.1	40.48	2.28	936	26.8	31.1	40.50	2.29
Inferred	3,231	24.1	29.6	41.80	2.88	2,651	24.7	30.5	41.23	2.62
Total	**4,297**	**25.1**	**30.0**	**41.46**	**2.73**	**3,664**	**25.3**	**30.7**	**41.01**	**2.52**
Glacier Valley (60.72% Fortescue)										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	477	24.1	32.4	39.33	1.74	350	25.1	32.8	39.01	1.66
Inferred	2,844	20.5	30.7	40.69	2.19	2,434	22.2	32.4	39.06	1.76
Total	**3,321**	**21.1**	**30.9**	**40.50**	**2.13**	**2,784**	**22.5**	**32.5**	**39.06**	**1.74**
West Star (60.72% Fortescue)										
Measured	-	-	-	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-	-	-	-
Inferred	274	23.5	28.3	43.43	3.43	258	23.5	29.0	42.90	3.20
Total	**274**	**23.5**	**28.3**	**43.43**	**3.43**	**258**	**23.5**	**29.0**	**42.90**	**3.20**
Total Magnetite Mineral Resources										
Measured	77	28.6	32.4	39.44	1.91	76	28.7	32.4	39.42	1.90
Indicated	1,466	26.6	31.5	40.11	2.11	1,286	26.4	31.6	40.10	2.12
Inferred	6,350	22.5	30.0	41.38	2.60	5,344	23.5	31.3	40.32	2.26
Total	**7,892**	**23.3**	**30.3**	**41.12**	**2.50**	**6,706**	**24.1**	**31.4**	**40.27**	**2.22**

Notes in reference to table

- Magnetite Mineral Resource estimates, including the North Star, Eastern Limb, Glacier Valley and West Star deposits, are reported according to JORC 2012 standards.
- All reporting is based on Mass Recovery expressed as a nine per cent Davis Tube Recovery (DTR) cut-off.
- All Mineral Resources are reported on a dry-tonnage basis.



For personal use only

Ore reserves and mineral resources report



Competent Persons Statement

The detail in this report that relates to Hematite Mineral Resources is based on information compiled by Mr Stuart Robinson, Mr Nicholas Nitschke, Ms Erin Retz and Mr David Frost-Barnes; full-time employees of Fortescue. Each provided technical input for Mineral Resource estimations. The detail in this report that relates to Magnetite Mineral Resources is based on information complied by Mr Lynn Widenbar, an independent consultant for Widenbar and Associates. Mr Widenbar provided technical input for Mineral Resource estimations.

Estimated Ore Reserves for the Chichester and Solomon Hubs for fiscal year 2017 were compiled by Mr Martin Slavik, Mr Oliver Wang and Mr Chris Fowers; full-time employees of Fortescue. Estimated Magnetite Ore Reserves for the Iron Bridge project for fiscal year 2017 were compiled by Mr Glenn Turnbull, an independent consultant for Golder Associates.

Mr Robinson is a Fellow of, and Mr Nitschke, Ms Retz, Mr Slavik, Mr Wang, Mr Fowers, Mr Widenbar and Mr Turnbull are Members of the Australasian Institute of Mining and Metallurgy. Mr Frost-Barnes is a Member of the Institute of Materials, Minerals and Mining.

Mr Robinson, Mr Nitschke, Ms Retz, Mr Frost-Barnes, Mr Slavik, Mr Wang, Mr Fowers, Mr Widenbar and Mr Turnbull have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Mr Robinson, Mr Nitschke, Ms Retz, Mr Frost-Barnes, Mr Slavik, Mr Wang, Mr Fowers, Mr Widenbar and Mr Turnbull consent to the inclusion in this report of the matters based on this information in the form and context in which it appears.



Hematite Ore Reserves total 2.2 billion tonnes at an average grade of 57.2% Fe

For personal use only

Ore reserves and mineral resources tenements

Western Australia Tenure

Holder: Chichester Metals Pty Ltd Status: Granted
FMG mineral rights status: 100% all mineral rights

E45/2497 E45/2498 E45/2499 E45/2593 E45/2651
E45/2652 E46/566 E46/467 E46/516 E46/518
E46/519 E46/595 E46/567 E46/568 E46/569
E46/590 E46/612 E46/600 E46/601 E46/610
E46/611 E47/1320 E46/623 E46/664 E46/666
E46/675 M45/1082 E47/1387 E47/1388 E47/1434
E47/2177 M45/1086 M45/1083 M45/1084 M45/1089
M45/1085 M45/1091 M45/1087 M45/1088 M45/1094
M45/1090 M45/1103 M45/1092 M45/1093 M45/1106
M45/1102 M45/1124 M45/1104 M45/1105 M45/1127
M45/1107 M45/1138 M45/1125 M45/1126 M45/1141
M45/1128 M46/316 M45/1139 M45/1140 M46/314
M45/1142 M46/321 M46/292 M46/293 M46/319
M46/315 M46/326 M46/317 M46/318 M46/324
M46/320 M46/331 M46/322 M46/323 M46/329
M46/325 M46/336 M46/327 M46/328 M46/334
M46/330 M46/341 M46/332 M46/333 M46/339
M46/335 M46/346 M46/337 M46/338 M46/344
M46/340 M46/351 M46/342 M46/343 M46/349
M46/345 M46/356 M46/347 M46/348 M46/354
M46/350 M46/404 M46/352 M46/353 M46/402
M46/355 M46/409 M46/357 M46/401 M46/407
M46/403 M46/414 M46/405 M46/406 M46/412
M46/408 M46/419 M46/410 M46/411 M46/417
M46/413 M46/424 M46/415 M46/416 M46/422
M46/418 M46/454 M46/420 M46/421 M46/451
M46/423 M47/1461 M46/449 M46/450 M46/452
M46/453

Holder: Chichester Metals Pty Ltd Status: Granted
FMG mineral rights status: 100% iron ore rights

E 46/413

Holder: Chichester Metals Pty Ltd Status: Granted
FMG mineral rights status: N/A

G46/7 L45/152 L46/36 L46/100 L46/111
L46/112 L46/35 L46/99 L46/37 L46/40
L46/46 L46/66 L46/48 L46/49 L46/51
L46/52 L46/47 L46/57 L46/62 L46/64
L47/193 L46/53 L47/198 L47/654 L47/655
L47/656 L47/197 L47/658 L47/660 L47/693
L47/710 L47/711 L47/778

Holder: Chichester Metals Pty Ltd Status: Application
FMG mineral rights status: 100% all mineral rights

M45/1258

Holder: Chichester Metals Pty Ltd Status: Application
FMG mineral rights status: N/A

L47/653 L47/657 L47/659

Holder: FMG Magnetite Pty Ltd Status: Granted
FMG mineral rights status: 100% all mineral rights (Note: 1)

E 45/2510 E 45/2535 M 45/1226

Holder: FMG Magnetite Pty Ltd Status: Granted
FMG mineral rights status: N/A (Note: 1)

L 45/257 L 45/293 L 45/294 L 45/317 L 45/318
L45/319 L 45/331

Holder: FMG Magnetite Pty Ltd Status: Application
FMG mineral rights status: N/A (Note: 1)

L 45/320

Holder: FMG Magnetite Pty Ltd and Formosa Steel IB Pty Ltd
Status: Granted
FMG mineral rights status: 69% all mineral rights
(Note: 1 and 2)

E 45/4606

Holder: FMG Magnetite Pty Ltd and Formosa Steel IB Pty Ltd
Status: Granted
FMG mineral rights status: N/A (Note: 1 and 2)

L 45/359 L 45/366 L 45/367

Holder: FMG Magnetite Pty Ltd and Formosa Steel IB Pty Ltd
Status: Application
FMG mineral rights status: N/A (Note: 1 and 2)

L 45/397

Holder: FMG North Pilbara Pty Ltd Status: Granted
FMG mineral rights status: 100% all mineral rights (Note: 1)

E 45/3084 M 45/1244 P 45/3010

Holder: Pilbara Water & Power Pty Ltd
Status: Granted
FMG mineral rights status: N/A (Note: 1)

L 45/272 L 45/289 L 45/291 L 45/292 L 45/325
L 45/360 L 45/361 L 45/364 L 45/389

Ore reserves and mineral resources tenements

Western Australia Tenure continued

Holder: FMG Nullagine Pty Ltd **Status: Granted**

FMG mineral rights status: 100% iron ore rights

E45/2717	E46/522	E46/523	E46/651	E46/652
E46/655	E46/663	E46/928	E46/969	M46/515
M46/522	M46/523			

Holder: FMG Nullagine Pty Ltd **Status: Granted**

FMG mineral rights status: N/A

G46/9	L46/114	L46/118	L46/119	L46/74
L46/80	L46/82	L46/83	L46/84	L46/85
L46/93	L46/95			

Holder: FMG Pilbara Pty Ltd **Status: Granted**

FMG mineral rights status: 100% all mineral rights

E08/1393	E08/1440	E08/1878	E08/2003	E08/2072
E08/2137	E08/2200	E08/2398	E08/2594	E08/2652
E08/2653	E08/2662	E08/2721	E08/2778	E08/2792
E08/2827	E08/2932	E45/2870	E45/3191	E45/3414
E45/3473	E45/3438	E45/3545	E45/3641	E45/3659
E45/3697	E45/3698	E45/3760	E45/3816	E45/3705
E45/4148	E45/4227	E45/4265	E45/4356	E45/4450
E45/4451	E45/4466	E45/4498	E45/4525	E45/4526
E45/4529	E45/4530	E45/4531	E45/4532	E45/4528
E45/4549	E45/4578	E45/4664	E45/4725	E45/4728
E46/517	E46/621	E46/699	E46/701	E46/706
E46/711	E46/741	E46/743	E46/776	E46/799
E46/859	E46/861	E46/862	E46/965	E46/967
E46/980	E46/986	E46/989	E46/1000	E46/1009
E46/1034	E46/1045	E46/1055	E46/1071	E46/1074
E46/1076	E46/1077	E46/1079	E46/1080	E46/1085
E46/1120	E46/1128	E46/1142	E46/1146	E46/1152
E46/1155	E47/1011	E47/1016	E47/1136	E47/1154
E47/1155	E47/1194	E47/1195	E47/1196	E47/1299
E47/1300	E47/1301	E47/1302	E47/1306	E47/1319
E47/1342	E47/1349	E47/1351	E47/1355	E47/1357
E47/1370	E47/1373	E47/1383	E47/1384	E47/1390
E47/1391	E47/1392	E47/1393	E47/1395	E47/1396
E47/1397	E47/1404	E47/1419	E47/1420	E47/1423
E47/1433	E47/1435	E47/1446	E47/1447	E47/1448
E47/1449	E47/1453	E47/1455	E47/1461	E47/1500
E47/1532	E47/1533	E47/1543	E47/1578	E47/1579
E47/1614	E47/1623	E47/1650	E47/1675	E47/1681
E47/1684	E47/1690	E47/1702	E47/1703	E47/1728
E47/1741	E47/1761	E47/1762	E47/1763	E47/1764
E47/1772	E47/1809	E47/1818	E47/1821	E47/1832
E47/1846	E47/1861	E47/1920	E47/1921	E47/1927
E47/1944	E47/1988	E47/2037	E47/2085	E47/2119
E47/2146	E47/2160	E47/2171	E47/2172	E47/2173
E47/2239	E47/2240	E47/2285	E47/2292	E47/2331
E47/2333	E47/2378	E47/2465	E47/2496	E47/2538
E47/2664	E47/2665	E47/2666	E47/2675	E47/2729
E47/2739	E47/2879	E47/2914	E47/2918	E47/2919
E47/2920	E47/2921	E47/2922	E47/2985	E47/2986
E47/3001	E47/3004	E47/3013	E47/3014	E47/3081
E47/3094	E47/3126	E47/3150	E47/3153	E47/3161
E47/3162	E47/3163	E47/3194	E47/3205	E47/3207
E47/3211	E47/3218	E47/3220	E47/3222	E47/3225
E47/3226	E47/3227	E47/3245	E47/3252	E47/3264
E47/3270	E47/3280	E47/3291	E47/3292	E47/3296
E47/3311	E47/3313	E47/3315	E47/3318	E47/3321
E47/3334	E47/3335	E47/3347	E47/3350	E47/3379
E47/3380	E47/3381	E47/3397	E47/3402	E47/3403
E47/3404	E47/3405	E47/3406	E47/3438	E47/3444
E47/3448	E47/3451	E47/3454	E47/3455	E47/3464
E47/3498	E47/3499	E47/3500	E47/3501	E47/3505
E47/3506	E47/3512	E47/3513	E47/3517	E47/3561
E47/3562	E47/3563	E52/1763	E52/1779	E52/1788
E52/1789	E52/1790	E52/1937	E52/2034	E52/2035
E52/2114	E52/2311	E52/2521	E52/2522	E52/2555
E52/2594	E52/2620	E52/2637	E52/2745	E52/2748
E52/2928	E52/2933	E52/3060	E52/3097	E52/3107
E52/3134	E52/3135	E52/3160	E52/3184	E52/3204
E52/3208	E52/3209	E52/3210	E52/3211	E52/3213
E52/3233	E52/3247	E52/3261	E52/3294	E52/3343
E52/3369	E52/3370	E52/3371	E52/3372	E52/3373
E52/3396	E52/3441	E52/3471	M08/502	M45/1177
M47/1407	M47/1408	M47/1409	M47/1410	M47/1411
M47/1413	M47/1417	M47/1431	M47/1433	M47/1434
M47/1453	M47/1466	M47/1473	M47/1474	M47/1475
M47/1488	M47/1489	M47/1490	M47/1492	M47/1508
M47/1509	P08/531	P08/532	P45/2862	P45/2863
P45/2864	P45/2865	P45/2932	P47/1257	P47/1269
P47/1278	P47/1279	P47/1286	P47/1287	P47/1304
P47/1305	P47/1306	P47/1309	P47/1397	P47/1407
P47/1408	P47/1409	P47/1410	P47/1411	P47/1412
P47/1423	P47/1427	P47/1469	P47/1470	P47/1545
P47/1554	P47/1609	P47/1633	P47/1642	P47/1643
P47/1649	P47/1650	P47/1663	P47/1664	P47/1665
P47/1666	P47/1667	P47/1668	P47/1669	P47/1670
P47/1671	P47/1672	P47/1673	P47/1674	P47/1675
P47/1722	P47/1735	P47/1736	P47/1768	P47/1771
P47/1775	P47/1776	P47/1777	P47/1774	P52/1485
P52/1523	P52/1524	P52/1525		

For personal use only

Ore reserves and mineral resources tenements

Western Australia Tenure continued

Holder: FMG Pilbara Pty Ltd **Status: Granted**

FMG mineral rights status:
100% iron ore rights, 34.81% non-iron (Note 3)

E 08/1915 E 08/2000 E 08/2065 E 08/2067 E 08/2114
E 47/1773 E 47/2236 E 52/2786

Holder: FMG Pilbara Pty Ltd **Status: Granted**

FMG mineral rights status:
100% all mineral rights except diamonds

E 47/1333 E 47/1334 E 47/1352 E 47/1372 E 47/1398
E 47/1399 E 47/1436 E 47/1523 E 47/1524

Holder: FMG Pilbara Pty Ltd **Status: Granted**

FMG mineral rights status: N/A

G45/275 G45/285 L45/158 L45/191 L45/240
L47/232 L47/293 L47/294 L47/296 L47/301
L47/351 L47/360 L47/361 L47/362 L47/363
L47/367 L47/381 L47/382 L47/391 L47/392
L47/397 L47/471 L47/472 L47/700 L47/713
L47/752 L47/754 L47/770 L47/774 L47/777

Holder: FMG Pilbara Pty Ltd **Status: Application**

FMG mineral rights status: 100% all mineral rights

E08/2849 E08/2930 E45/4545 E45/4579 E45/4580
E45/4581 E45/4582 E45/4718 E45/4720 E45/4954
E45/4864 E46/1046 E46/1047 E46/1072 E45/4781
E46/1101 E46/1117 E46/1121 E46/1122 E46/1081
E46/1127 E46/1135 E46/1136 E46/1145 E46/1125
E47/3098 E47/3171 E47/3262 E47/3263 E46/1158
E47/3278 E47/3279 E47/3372 E47/3424 E47/3277
E47/3435 E47/3482 E47/3483 E47/3484 E47/3432
E47/3527 E47/3548 E47/3572 E47/3581 E47/3511
E47/3588 E47/3598 E47/3628 E47/3649 E47/3587
E47/3685 E47/3686 E47/3688 E47/3689 E47/3658
E47/3739 E47/3740 E47/3741 E52/3482 E47/3690
M47/1457 M47/1458 M47/1459 M47/1476 M47/1456
M47/1478 M47/1481 M47/1493 M47/1497 M47/1477
M47/1511 M47/1513 M47/1518 M47/1519 M47/1510
M47/1522 M47/1523 M47/1524 M47/1525 M47/1520
M47/1530 M47/1531 M47/1526 P47/1772 R47/14

Holder: FMG Pilbara Pty Ltd **Status: Application**

FMG mineral rights status: N/A

L47/714 L47/716 L47/790 L47/802

Holder: FMG Resources Pty Ltd **Status: Granted**

FMG mineral rights status: 100% all mineral rights

E28/2660 E28/2661 E28/2662 E45/4021 E45/4150
E45/4349 E45/4350 E45/4576 E45/4577 E45/4737
E47/2774 E59/1360 E77/2157 E77/2158 E77/2159
E77/2262 E77/2292

Holder: FMG Resources Pty Ltd **Status: Granted**

FMG mineral rights status: N/A (Note 4)

E29/929 E29/938 E29/946 E59/1275 P29/2359

Holder: FMG Resources Pty Ltd **Status: Application**

FMG mineral rights status: 100% all mineral rights

E28/2663 E28/2664

Holder: Pilbara Gas Pipeline Pty Ltd **Status: Granted**

FMG mineral rights status: N/A

L45/334 L45/335 L45/336 L45/339 L45/342
L45/343 L45/344 L45/345 L45/346 L45/347
L45/349 L45/352 L45/353 L47/696 L47/697

Holder: Pilbara Gas Pipeline Pty Ltd **Status: Application**

FMG mineral rights status: N/A

L45/332 L45/333 L45/337 L45/338 L45/340
L45/348 L47/695

Holder: Pilbara Iron Ore Pty Ltd **Status: Granted**

FMG mineral rights status: 50% all mineral rights (Note 5)

E47/1191 E47/1192 E47/1224 E47/1225 E47/1235
E47/1380 M47/580 P47/1816

Holder: Pilbara Iron Ore Pty Ltd **Status: Application**

FMG mineral rights status: N/A (Note 5)

L 47/205

Holder: The Pilbara Infrastructure Pty Ltd **Status: Granted**

FMG mineral rights status: N/A

AL 70/1 (L 1SA) G45/286 L45/199 L46/96

Holder: The Pilbara Infrastructure Pty Ltd **Status: Application**

FMG mineral rights status: N/A

L47/758 L47/759 L47/760 L47/761 L47/794
L47/795 L47/796 L47/797 L47/798 L47/799
L47/800 L47/801 L47/803 L47/804

For personal use only

Ore reserves and mineral resources tenements

Third Party Tenure

Holder: Ammon, Derek

Status: Granted

FMG mineral rights status: 40% all mineral rights (Note 6)

E47/1140

Holder: Ammon, Derek

Status: Application

FMG mineral rights status: 40% all mineral rights (Note 6)

M47/583

Holder: Archipelago Nominees Pty Ltd

Status: Granted

FMG mineral rights status: 100% all mineral rights except rock products

M 45/1229

Holder: Cullen Exploration Pty Ltd

Status: Granted

FMG mineral rights status: Beneficial right to earn 51% iron ore rights

E52/1667

Holder: Ryan, David

Status: Granted

FMG mineral rights status: 100% all mineral rights except tiger eye

P 47/1275

Holder: Ryan, David

Status: Application

FMG mineral rights status: 100% all mineral rights except tiger eye

M47/1502

Holder: Williamson, Richard

Status: Granted

FMG mineral rights status: 100% all mineral rights except tiger eye

P 47/1695

Holder: Wodgina Lithium Pty Ltd

Status: Granted

FMG mineral rights status: 100% iron ore rights

E 45/4024 E 45/4025

South Australian Tenure

Holder: FMG Resources Pty Ltd **Status: Granted**

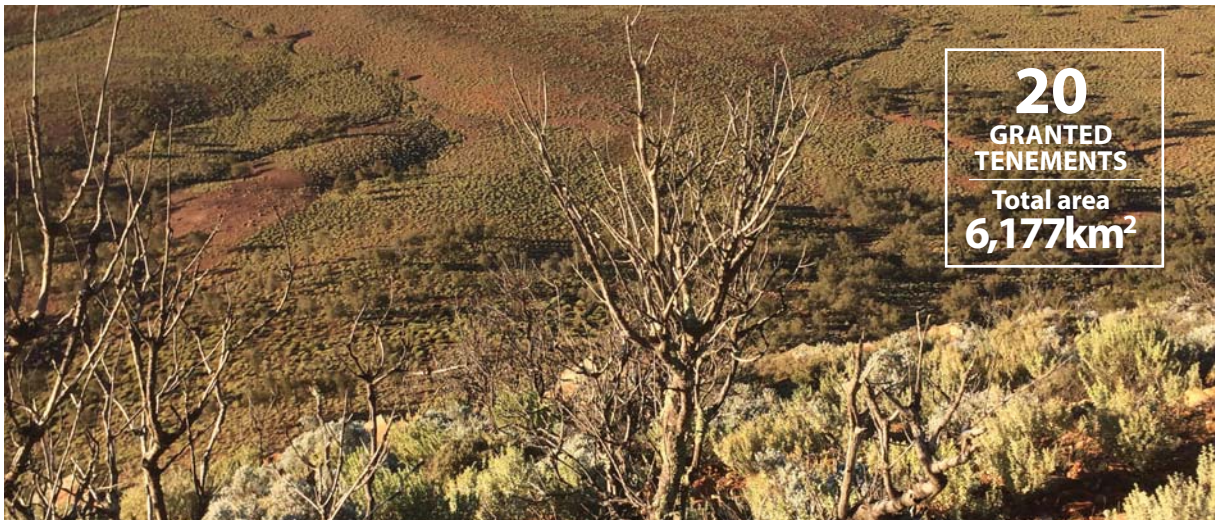
FMG mineral rights status: 100% all mineral rights

EL5023	EL5024	EL5025	EL5026	EL5028
EL5030	EL5031	EL5237	EL5338	EL5451
EL5467	EL5748	EL5750	EL5782	EL5825
EL5854	EL5884	EL5912	EL5967	EL5968

Holder: FMG Resources Pty Ltd **Status: Application**

FMG mineral rights status: 100% all mineral rights

ELA 2017/00089	ELA 2017/00120	ELA 2017/00132
ELA 2017/00134	ELA 2017/00137	ELA 2017/00140
ELA 2017/00141	ELA 2017/00142	ELA 2017/00143



For personal use only

Ore reserves and mineral resources tenements

New South Wales Tenure

Holder: Blue Jacket Mining Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)

EL6315

Holder: Columbine Resources Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)

EL6378

Holder: Gold and Copper Resources Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL6040 EL6588 EL7194 EL7599 EL8330
EL8331 EL8332

Holder: Gold and Copper Resources Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL6377 EL6466 EL7130 EL8265 EL8408
EL8409 EL8410 EL8411 EL8412 EL8413
EL8423 EL8425 EL8488 EL8445

Holder: Gosling Creek Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL6481

Holder: Gum Ridge Mining Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL6249 EL6562

Holder: Imperial Gold 2 Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)

EL7207

Holder: Lucknow Gold Limited

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL6455 (partial)

Holder: Sams Reef Mining Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 8)

EL6268

Holder: Tom's Waterhole Pty Ltd

Status: Granted

FMG mineral rights status: Earning 51% metallic mineral rights (Note 7)

EL6456

Notes

1. FMG Magnetite Pty Ltd, FMG North Pilbara Pty Ltd and Pilbara Water and Power Pty Ltd are subsidiaries of FMG Iron Bridge Limited which is owned 88 per cent by Fortescue Metals Group Ltd and 12 per cent by Baosteel Resources International Co. Ltd, a subsidiary of China's Baowu Group.
2. Joint Venture with FMG Magnetite Pty Ltd and Formosa Steel IB Pty Ltd. Formosa holds 31 per cent interest in title.
3. Joint Venture with Northern Star Resources Ltd. Northern Star Resources hold 63.24 per cent beneficial interest in non-iron mineral rights.
4. Subject to Sale Agreement.
5. Unincorporated Joint Venture between Fortescue Metals Limited and Consolidated Minerals Limited.
6. Title has been contested and is currently being litigated.
7. Joint Venture with FMG Resources Pty Ltd and Gold and Copper Resources Pty Ltd, Gosling Creek Pty Ld, Gum Ridge Mining Pty Ltd, Lucknow Gold Limited, Tom's Waterhole Pty Ltd. FMG are farming in to earn up to an 51per cent interest in the metallic mineral rights.
8. Joint Venture with FMG Resources Pty Ltd and Gold and Copper Resources Pty Ltd, Blue Jacket Mining Pty Ltd, Columbine Resources Pty Ltd, Sams Reef Mining Pty Ltd, Imperial Gold 2 Pty Ltd. FMG Resources Pty Ltd are farming in to earn up to an 51 per cent interest in the metallic mineral rights.

For personal use only

Ore reserves and mineral resources tenements



Ecuador

Santa Ana	100000149	8a	50000628
10a	50000640	8b	90000344
2a	100000211	8c	90000345
7a	70000247	8d	90000346
7b	70000240	8e	50000629
7c	70000241	8f	50000630
7d	70000248	8g	50000631
7e	70000243	8h	50000632
7f	70000245	8i	50000633
7g	70000242	8j2	50000636
7h	70000244	8k	50000634
7i	70000246	8l	50000635
7j	10000324	8m	50000639
7k	20000218	8n	50000637
7l	10000325	8o	50000638
7m	10000326	8p	50000641

32 concessions covering over 1,300km^2

For personal use only

CORPORATE SOCIAL RESPONSIBILITY





FY17 Strategy

For personal use only

Corporate social responsibilty highlights



TOTAL RECORDABLE INJURY FREQUENCY RATE FOR FY17

2.9

FY16 - 4.3

ABORIGINAL WORKFORCE

15.8%

FY16 - 14%

FEMALE EMPLOYMENT

17.3%

FY16 - 15%

FIRST ALL-FEMALE CLASS OF FORTESCUE

VTEC

GRADUATES

CONTRACTS AWARDED TO ABORIGINAL COMPANIES AND JVs

A$1.95 BILLION

FY16 - A$1.8 BILLION

GREENHOUSE GAS EMISSIONS INTESITY REDUCED BY

8%

FROM FY15

EMPLOYEES RETURNED FROM PARENTAL LEAVE

96%

PREVIOUS 12 MONTHS: 85%

TOTAL PROCUREMENT SPEND IN AUSTRALIA

98.5%

FY16 - 98.49%

For personal use only

For personal use only

Fortescue's approach



Creating shared value

Since its formation in 2003, Fortescue has demonstrated a strong commitment to ensuring communities benefit from its growth and development. It recognises that in order to achieve its vision of being the safest, lowest cost, most profitable iron ore producer, Corporate Social Responsibility (CSR) must be embedded within all aspects of its business.

Empowerment is at the heart of Fortescue's approach to CSR – as is an absolute determination to practical outcomes. It is about Fortescue's ability to empower individuals within its Company and communities to be their best; to find innovative solutions to the most complex business and societal challenges and to find ways to improve the business bottom line while delivering positive change.

CSR is Fortescue's commitment to behave ethically, to create value for the Company's stakeholders, to protect the environment and to empower and partner with communities to build capability and capacity.

Fortescue's commitment to delivering positive social change by contributing to ending disadvantage amongst Aboriginal people in the Pilbara, promoting diversity in the workplace and addressing environmental challenges such as climate change are important elements of the Company's CSR strategy.

Compliance with all relevant legalisation and obligations including those that govern health, safety and environmental obligations is the absolute minimum standard to which the Company adheres.

Fortescue's values form the foundation of the Company's approach to CSR. These values set the ethical and moral compass by which business is undertaken. Fortescue's Code of Conduct establishes the essential standards of personal and corporate conduct and behaviour. This strong base supports the Company's Commitments and Principles and leads into the development and implementation of policies, opportunities and objectives, ultimately informing the application of specific business unit targets, processes and plans.

Fortescue's commitment to CSR starts with the CEO and is supported by the Board and executive team.



For personal use only



CORPORATE SOCIAL RESPONSIBILITY

Setting high standards

By championing safety, preserving Aboriginal heritage, embracing diversity and demonstrating integrity

Creating positive social change

By building local communities, empowering Aboriginal people and eradicating modern slavery in Fortescue's supply chain

Safeguarding the environment

By protecting biodiversity, managing water resources, reducing Greenhouse Gas emissions and waste

CSR strategy

Through its updated CSR Strategy, Fortescue aims to further enhance the highly developed sustainability and community initiatives already in place. The document also outlines its commitments, objectives and targets in a central location. The strategy continues Fortescue's approach of setting stretch targets and holding itself and others to account to deliver tangible, durable results.

Updating the CSR strategy brought together expertise and experience from across the business. Following a thorough consultation and review process, the views of stakeholders have been used to form the basis of Company-wide objectives and relevant indicators.

The process included a review of existing CSR activities against international reporting standards, peer review and consideration of known internal and external stakeholder interests and materiality. The strategy was also informed by the United Nations Global Impact and the International Council of Mining and Metals Principles.

Fortescue will maximise the resources and energy of its business to deliver positive outcomes in the three core areas highlighted above. The full Corporate Social Responsibility Report is available at www.fmgl.com.au.

GOVERNANCE



FY17 Review

For personal use only

Governance

Overview



Effective corporate governance is a critical element contributing to the longer term success of Fortescue. The Board and all levels of management are fully committed to maintaining and enhancing corporate governance so that it continues to contribute to Fortescue's vision to be the safest, lowest cost, most profitable iron ore producer.

Fortescue supports the intent of the ASX Corporate Governance Council Principles and Recommendations 3rd Edition (Principles and Recommendations) and meets the specific requirements of the Principles and Recommendations, unless disclosed otherwise. The cornerstone principles of corporate governance at Fortescue are:

Transparency: Being clear and unambiguous about the Company's structure, operations and performance, both externally and internally, and maintaining a genuine dialogue with, and providing insight to, stakeholders and the market generally.

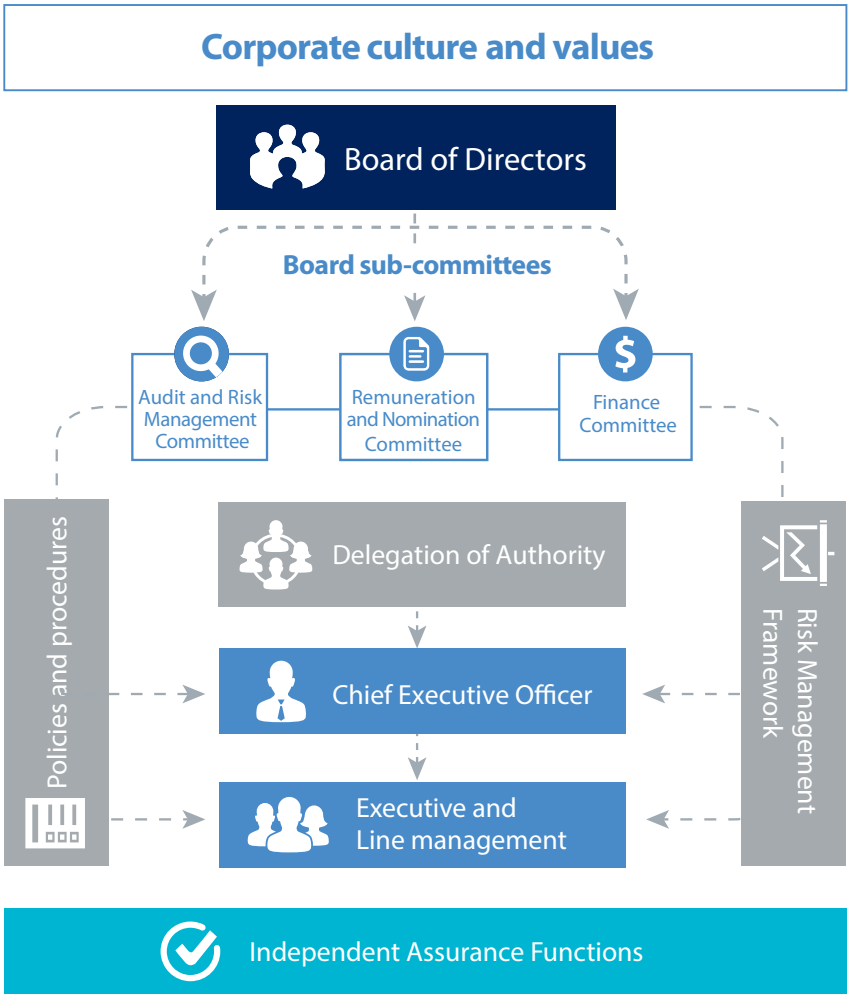
Integrity: Developing and maintaining a corporate culture committed to ethical behaviour and compliance with the law.

Corporate accountability: Ensuring that there is clarity of decision making within the Company, with processes in place to ensure that the right people have authorised approval to make effective and efficient decisions, with appropriate consequences delivered for failures to follow those processes.

Stewardship: Developing and maintaining a Company-wide recognition that Fortescue is managed for the benefit of its shareholders, taking account of the interests of other stakeholders.

The full Social Responsibility Report is available at www.fmgl.com.au.

Fortescue's governance framework



For personal use only

FINANCIAL REPORT



FY17 Performance

For personal use only



Directors' report

At 30 June 2017

Your Directors present their report on the Fortescue consolidated group, comprising the Company and its controlled entities, for the year ended 30 June 2017.

Directors

The Directors of the Company in office during the year and until the date of this report, their qualifications, experience and directorships held in listed companies at any time during the last three years, are set out on pages 10 to 12.

The Directors' meetings, including meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2017 and the number of meetings attended by each Director are shown in section 2.3 of the Corporate Governance Statement[1].

The relevant interests of each Director in the shares and performance rights issued by the Company as notified by the Directors to the Australian Securities Exchange in accordance with section 5205G(1) of the *Corporations Act 2001*, at the date of this report are as follows:

Director	Ordinary shares	Performance rights
A Forrest	1,038,800,000	-
M Barnaba	20,000	-
N Power	2,951,238	3,424,686
E Gaines	50,000	-
J Baderschneider	138,000	-
C Huiquan	-	-
S Warburton	50,750	-
P Bingham-Hall	35,000	-
J Morris	-	-

The remuneration of Directors and Key Management Personnel are detailed in the Remuneration Report on pages 101 to 132.

[1] Corporate Governance Statement is available on Fortescue's website at www.fmgl.com.au



For personal use only

Directors' report

At 30 June 2017

Operating and financial review

Fortescue's principal activities during the year were exploration, development, production, processing and sale of iron ore. There were no significant changes to the nature of the Group's principal activities during FY17.

The overview of Fortescue's operations, including a discussion of strategic priorities and outlook, key aspects of operating and financial performance and key business risks are contained in the following sections of the Annual Report: Overview on pages 3 to 14, Operating and Financial Review on pages 15 to 28 and Corporate Governance Statement[1] section 5 Risk Management.

Dividends

		2017	2016
Net profit after tax	US$m	2,093	985
Interim dividend	A$ cents per share	20	3
Final dividend	A$ cents per share	25	12
Total dividend	**A$ cents per share**	**45**	**15**

The following dividend payments were made during the year:

- Final fully franked dividend for the year ended 30 June 2016 of A$0.12 per share, paid in October 2016
- Interim fully franked dividend for the year ended 30 June 2017 of A$0.20 per share, paid in April 2017.

Environmental regulation and compliance

Fortescue is committed to minimising the environmental impacts of its operations, with an appropriate focus placed on continuous monitoring of environmental matters and compliance with environmental regulations.

The details of Fortescue's environmental performance including compliance with the relevant environmental legislation are presented in Fortescue's Corporate Social Responsibility Report[2].

Greenhouse Gas emissions and energy

Fortescue complies with the Australian Government's National Greenhouse and Energy Reporting Act 2007 (Cth) and recognises its responsibility to actively improve energy use and minimise greenhouse gas emissions to reduce its contribution to climate change and impact on the environment.

The details of Greenhouse Gas emissions and energy strategy, compliance and reporting are presented in Fortescue's Corporate Social Responsibility Report[2].

Unissued shares under performance rights

Details of the performance rights outstanding at 30 June 2017 are as follows:

	Exercise price A$	Balance at the end of the year Number	Vested and exercisable at the end of the year Number	Remaining contractual life Years
Short term performance rights 2016	-	1,376,649	1,376,649	13.5
Short term performance rights 2017	-	1,719,915	-	14.3
Long term performance rights 2015	-	2,643,422	-	0.3
Long term performance rights 2016	-	6,800,593	-	13.5
Long term performance rights 2017	-	3,254,445	-	14.3

In FY17, 2,084,214 of the 2016 short term performance rights were exercised and 895,536 long term performance rights were converted to shares.

[1] Corporate Governance Statement is available on Fortescue's website at www.fmgl.com.au

[2] Corporate Social Responsibility Report is available on Fortescue's website at www.fmgl.com.au

For personal use only

Directors' report

At 30 June 2017

Company Secretary

Alison Terry and Ian Wells are Company Secretaries of Fortescue. Details of their qualifications and experience are set out on page 12.

Directors and Officers indemnities and insurance

Since the end of the previous financial year, the Company has paid premiums to insure the Directors and Officers of Fortescue.

The liabilities insured are legal costs that may be incurred in defending civil proceedings that may be brought against the Officers in their capacity as Officers of Fortescue, and any other payments arising from liabilities incurred by the Officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the Officers or the improper use by the Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to Fortescue.

It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities. Conditions of the policy also preclude disclosure to third parties of the amount paid for the policy.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor has relevant expertise and experience and where the auditor's independence is not compromised.

Details of the amounts paid or payable to the auditor PricewaterhouseCoopers Australia and related entities for audit and non-audit services provided during the year are set out in note 19 to the financial statements.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

The auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 53 and forms part of this report.

Future developments

The Overview section set out on pages 3 to 14 and the Operating and Financial Review section set out on pages 15 to 28 of this Annual Report, provide an indication of the Group's likely developments and expected results. In the opinion of the Directors, disclosure of any further information about these matters and the impact on Fortescue's operations could result in unreasonable prejudice to the Group and has not been included in this report.

Significant changes in state of affairs

There have been no significant changes in the state of affairs of Fortescue, other than those disclosed in this report.

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of Fortescue, or to intervene in any proceedings to which Fortescue is a party, for the purposes of taking responsibility on behalf of Fortescue for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that instrument to the nearest million dollars, unless otherwise stated.

Events occurring after the reporting period

On 20 July 2017, the Federal Court of Australia handed down its reasons for judgment in the matter of *Warrie (formerly TJ) (on behalf of the Yindjibarndi People) v State of Western Australia,* in which Fortescue is the second respondent. In the Company's view, the Court's decision has no impact on the current and future operations or mining tenure at the Solomon Hub. Fortescue has no commercial concerns and does not anticipate any material impact following the decision.

On 28 July 2017, the Company executed a US$525 million revolving credit facility.

On 1 August 2017, the Company announced the repurchase of the Solomon Power Station for a total of US$348 million.

On 21 August 2017, the Directors declared a final dividend of 25 Australian cents per ordinary share payable in October 2017.

Signed in accordance with a resolution of the Directors.



Andrew Forrest AO
Chairman

Dated in Perth this 21st day of August 2017.

For personal use only

Auditor's independence declaration



As lead auditor for the audit of Fortescue Metals Group Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Fortescue Metals Group Limited and the entities it controlled during the period.



Nick Henry
Partner
PricewaterhouseCoopers

Perth
21 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

For personal use only

Independent auditor's report



To the shareholders of Fortescue Metals Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Fortescue Metals Group Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

For personal use only

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

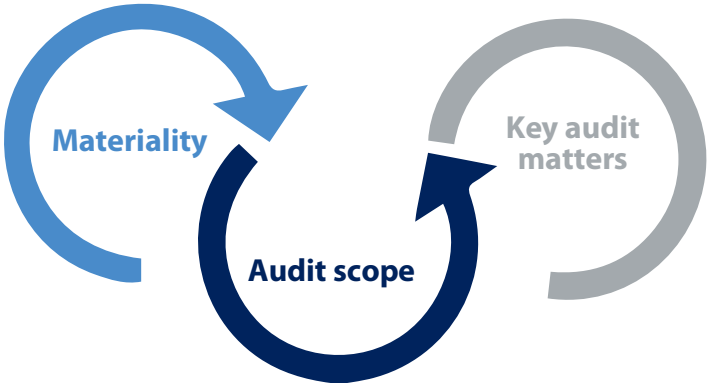
Liability limited by a scheme approved under Professional Standards Legislation.

Independent auditor's report

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

For the purpose of our audit we used overall Group materiality of US$79 million, which represents approximately 5% of the three year average profit before tax of the Group for the current and two previous years.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We applied a three year average to address potential volatility in the calculation of materiality that arises from iron ore price fluctuations between years.

We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

The primary activity of the Group is the operation of integrated iron ore mining operations and infrastructure comprising various iron ore mines in the Chichester and Hamersley ranges, a rail network and port facilities in Port Hedland. Our audit procedures were predominately performed in Perth where many of the Corporate and Group Operations functions are centralised and this was supported by visits to the mining operations at Solomon, Cloudbreak and Christmas Creek, the port and rail facilities at Port Hedland and the Iron Bridge magnetite project.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Management Committee.

For personal use only

Independent auditor's report

For personal use only

Key audit matter	How our audit addressed the key audit matter
Revenue from iron ore sales (Refer to note 3 and 11(a)(i))	
For the year ended 30 June 2017 the Group recognised revenue of US$8,335 million from the sale of iron ore. We focussed on this area as revenue from iron ore sales was the most significant balance in the consolidated income statement. Our audit approach included additional focus on two specific non-cash period end adjustments to revenue as follows:	In addition to the audit procedures we performed over revenue, we addressed the two specific non-cash period end adjustments to revenue as follows:
(i) Re-measurement of provisional sales	
The value of revenue recognised each period is impacted by the Group's provisional pricing arrangements where the final sales price is determined based on iron ore prices subsequent to the vessel's arrival at the port of discharge. The Group initially recognises sales at the shipment date price and re-estimates the consideration to be received using the spot iron ore price at the end of each reporting period, with the impact of the iron ore price movements until final settlement recorded as an adjustment to operating sales revenue.	For a sample of sales contracts open at balance date, we inspected the sales contracts and assessed key terms of the sale including the volume of sales and duration of the provisional sales period. For the sample of sales contracts tested, we recalculated the recorded provisional pricing adjustments to sales revenue and found them to be consistent with external commodity price data.
ii) Deferred income	
The Group has some customers who pay in advance for the future supply of iron ore. These advance prepayments are treated as deferred income and recognised as revenue in the income statement when the associated iron ore is delivered to the customer.	We checked that the sale contracts underlying the payments from customers received in advance included terms that the obligation will be settled by the future physical delivery of iron ore to determine if classification as deferred income was appropriate. For prepayments treated as deferred income at balance date, we obtained confirmation from the Group's customers of the arrangement and remaining value outstanding to be settled in the future delivery of iron ore.
Financing of ore carriers (Refer to note 9(a) and 12)	
During the year ended 30 June 2017, the Group entered into a new financing arrangement for the purchase cost of eight Fortescue ore carriers (ore carriers) that the Group has committed to procure to provide shipping services to its customers. The ore carriers financing arrangements attach to individual vessels and are drawn down upon delivery of each vessel. At 30 June 2017, the Group had accepted delivery of four ore carriers and had received US$234 million of finance funding. This financing transaction was a key audit matter as it was a non-routine arrangement and due to its impact on the Group's financial position at 30 June 2017.	To assess the financial transaction, we performed the following audit procedures, amongst others: • We inspected the financing agreements between the Group and the financier and assessed whether the Group's conclusion to treat the arrangement as a finance lease was consistent with its accounting policies • We checked that the transaction costs associated with this new finance arrangement were capitalised and included within the effective interest rate applied to the finance arrangement.

Independent auditor's report

Key audit matter	How our audit addressed the key audit matter
Carrying value of exploration and evaluation assets (Refer to note 12 and 24(b))	
At 30 June 2017 the Group recognised an asset of US$813 million of exploration and evaluation expenditure. This was a key audit matter as the continued recognition as an asset requires judgement by the Group around the likelihood of recovery through future exploitation or sale of the asset. If a judgement is made by the Group that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off as an impairment expense to the income statement. The majority of the Group's capitalised exploration and evaluation assets relate to its wholly owned Pilbara regional exploration tenements and its 69% interest in the Iron Bridge Joint Venture (IBJV) which is evaluating the Iron Bridge magnetite project (the IBJV Project). We particularly focussed on the Group's judgement that the IBJV remains an exploration and evaluation asset which has not progressed sufficiently to be categorised as a development asset.	To assess the carrying value of the Group's exploration and evaluation assets, we performed the following audit procedures, amongst others: • We assessed whether the Group had right of tenure to its exploration and evaluation assets on a sample basis and whether ongoing exploration and/or evaluation activities exist to support the continued capitalisation of these assets under the Group's accounting policies • We held discussions with Group management on the status of the IBJV Project, which indicated that further evaluation and optimisation work was required in advance of a development decision and such work is continuing • We visited the IBJV Project mine and Stage 1 pilot processing plant in June 2017 to observe the current state of this project. We also inspected minutes of the IBJV Committee meetings throughout the year and noted an FY18 budgeted work program was approved for further evaluation testing of the pilot plant • We found that the Group's continued treatment of the IBJV Project as an exploration and evaluation asset was consistent with the current status of the IBJV Project and the approvals granted by the IBJV Committee.
Restoration and rehabilitation obligations Refer to note 13 and 24(e))	
The Group recognised provisions for restoration and rehabilitation obligations of US$559 million as at 30 June 2017. This was a key audit matter as the calculation of these provisions requires judgement by the Group in estimating the magnitude of possible works required for the removal of infrastructure and rehabilitation works, the future cost of performing the work, when rehabilitation activities will take place and the economic assumptions such as inflation and discount rate relevant to such liabilities. The judgement required by the Group to estimate such costs is further compounded by the fact that there has been limited restoration and rehabilitation activity by the Group or historical precedent against which to benchmark estimates of future costs. The Group reviews the restoration and rehabilitation obligations on an annual basis, using experts to provide support in its assessment where appropriate. This review incorporates consideration of the effects of any changes in regulations and the Group's anticipated approach to restoration and rehabilitation.	To assess the Group's restoration and rehabilitation obligations, we performed the following audit procedures, amongst others: • We evaluated the Group's rehabilitation and restoration cost forecasts including the process by which they were developed. We also checked the mathematical accuracy of the underlying calculations • We considered the competence and objectivity of the Group's experts who reviewed the closure plan and associated cost estimates • We evaluated the expected timing of restoration and rehabilitation activities and found them to be consistent with the life of mine plan for each mining operation • We benchmarked key market related assumptions including inflation rates and discount rates against external market data and found them to be consistent • We assessed provision movements in the year relating to restoration and rehabilitation obligations and found them to be consistent with our understanding of the Group's operations and associated rehabilitation plans.

For personal use only

Independent auditor's report

Other information

The directors are responsible for the other information. The other information comprises the Overview, Operating and Financial Review, Ore Reserves and Mineral Resources, Corporate Social Responsibility, Governance, Directors' Report and Corporate Directory included in the Group's Annual Report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

For personal use only

Independent auditor's report

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 105 to 132 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Fortescue Metals Group Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry
Partner

Perth
21 August 2017

For personal use only

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 61 to 99 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 200*1 and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position at 30 June 2017 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 20 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in note 20.

Note 1(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Andrew Forrest AO
Chairman

Dated in Perth this 21st day of August 2017.

For personal use only

Consolidated income statement

For the year ended 30 June 2017

	Note	2017 US$m	2016 US$m
Operating sales revenue	3	8,447	7,083
Cost of sales	5	(4,888)	(5,064)
Gross profit		**3,559**	**2,019**
Other income	4	14	7
Other expenses	6	(123)	(211)
Profit before income tax and net finance expenses		**3,450**	**1,815**
Finance income	7	19	214
Finance expenses	7	(502)	(675)
Profit before income tax		**2,967**	**1,354**
Income tax expense	14(a)	(874)	(369)
Profit for the year after income tax		**2,093**	**985**
Profit for the year after income tax is attributable to:			
Equity holders of the Company		2,093	984
Non-controlling interest		-	1
Profit for the year after income tax		**2,093**	**985**

Consolidated statement of comprehensive income

For the year ended 30 June 2017

	2017 US$m	2016 US$m
Profit for the year after income tax	**2,093**	**985**
Other comprehensive income:		
Other comprehensive income items	-	-
Total comprehensive income for the year, net of tax	**2,093**	**985**
Total comprehensive income for the year, net of tax is attributable to:		
Equity holders of the Company	2,093	984
Non-controlling interest	-	1
Total comprehensive income for the year, net of tax	**2,093**	**985**

	Note	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	8	67.3	31.6
Diluted earnings per share	8	67.0	31.6

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

For personal use only

Consolidated statement of financial position

At 30 June 2017

	Note	2017 US$m	2016 US$m
ASSETS			
Current assets			
Cash and cash equivalents	9(b)	1,838	1,583
Trade and other receivables	10(a)	141	241
Inventories	10(c)	588	554
Other current assets		38	45
Total current assets		**2,605**	**2,423**
Non-current assets			
Trade and other receivables	10(a)	3	4
Property, plant and equipment	12	16,493	16,867
Intangible assets		7	15
Other non-current assets		7	28
Total non-current assets		**16,510**	**16,914**
Total assets		**19,115**	**19,337**
LIABILITIES			
Current liabilities			
Trade and other payables	10(b)	708	622
Deferred income	10(d)	461	485
Borrowings and finance lease liabilities	9(a)	121	93
Provisions	13	227	167
Current tax payable	14(a)	685	267
Total current liabilities		**2,202**	**1,634**
Non-current liabilities			
Trade and other payables	10(b)	50	69
Deferred income	10(d)	447	308
Borrowings and finance lease liabilities	9(a)	4,350	6,678
Provisions	13	509	489
Deferred joint venture contributions	17(c)	266	253
Deferred tax liabilities	14(b)	1,557	1,500
Total non-current liabilities		**7,179**	**9,297**
Total liabilities		**9,381**	**10,931**
Net assets		**9,734**	**8,406**
EQUITY			
Contributed equity	9(d)	1,289	1,301
Reserves		39	33
Retained earnings		8,392	7,058
Equity attributable to equity holders of the Company		9,720	8,392
Non-controlling interest		14	14
Total equity		**9,734**	**8,406**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

For personal use only

Consolidated statement of cash flows

For the year ended 30 June 2017

	Note	2017 US$m	2016 US$m
Cash flows from operating activities			
Cash receipts from customers		8,768	6,693
Payments to suppliers and employees		(3,744)	(3,736)
Cash generated from operations		5,024	2,957
Interest received		19	22
Interest paid		(412)	(599)
Income tax (paid) received		(375)	66
Net cash inflow from operating activities	**9(c)(i)**	**4,256**	**2,446**
Cash flows from investing activities			
Payments for property, plant and equipment - Fortescue		(716)	(304)
Payments for property, plant and equipment - joint operations		(13)	(56)
Contributions from joint venture partners		12	-
Proceeds from disposal of plant and equipment		2	2
Net cash outflow from investing activities		**(715)**	**(358)**
Cash flows from financing activities			
Proceeds from borrowings and finance leases		1,734	-
Repayment of borrowings and finance leases		(4,187)	(2,695)
Finance costs paid		(47)	(28)
Dividends paid		(755)	(114)
Repayment of customer deposits		-	(5)
Purchase of shares by employee share trust		(27)	(21)
Net cash outflow from financing activities		**(3,282)**	**(2,863)**
Net increase (decrease) in cash and cash equivalents		259	(775)
Cash and cash equivalents at the beginning of the year		1,583	2,381
Effects of exchange rate changes on cash and cash equivalents		(4)	(23)
Cash and cash equivalents at the end of the year	**9(b)**	**1,838**	**1,583**

Non-cash investing and financing activities are disclosed in note 9(c)(ii).

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

For personal use only

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Attributable to equity holders of the Company					
	Contributed equity	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	US$m	US$m	US$m	US$m	US$m	US$m
Balance at 1 July 2015	**1,294**	**46**	**6,184**	**7,524**	**13**	**7,537**
Profit for the year	-	-	984	984	1	985
Total comprehensive income for the year, net of tax	**-**	**-**	**984**	**984**	**1**	**985**
Transactions with owners:						
Purchase of shares under employee share plans	(21)	-	-	(21)	-	(21)
Employee share awards exercised net of employee contributions	28	(12)	-	16	-	16
Expired options and rights	-	(3)	3	-	-	-
Equity settled share-based payment transactions	-	(3)	-	(3)	-	(3)
Dividends paid	-	-	(113)	(113)	-	(113)
Other	-	5	-	5	-	5
Balance at 30 June 2016	**1,301**	**33**	**7,058**	**8,392**	**14**	**8,406**
Profit for the year	-	-	2,093	2,093	-	2,093
Total comprehensive income for the year, net of tax	**-**	**-**	**2,093**	**2,093**	**-**	**2,093**
Transactions with owners:						
Purchase of shares under employee share plans	(27)	-	-	(27)	-	(27)
Employee share awards exercised net of employee contributions	15	(7)	-	8	-	8
Equity settled share-based payment transactions	-	16	-	16	-	16
Dividends paid	-	-	(762)	(762)	-	(762)
Other	-	(3)	3	-	-	-
Balance at 30 June 2017	**1,289**	**39**	**8,392**	**9,720**	**14**	**9,734**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

For personal use only

Notes to the consolidated financial statements

For the year ended 30 June 2017

For personal use only

Basis of preparation

1 Basis of preparation 66

Financial performance

2 Segment information 67
3 Operating sales revenue 67
4 Other income 68
5 Cost of sales 68
6 Other expenses 68
7 Finance income and finance expenses 69
8 Earnings per share 69

Capital management

9 Capital management 70
9(a) Borrowings and finance lease liabilities 70
9(b) Cash and cash equivalents 72
9(c) Cash flow information 73
9(d) Contributed equity 73
9(e) Dividends 74
10 Working capital 74
10(a) Trade and other receivables 74
10(b) Trade and other payables 75
10(c) Inventories 75
10(d) Deferred income 75
11 Financial risk management 76

Key balance sheet items

12 Property, plant and equipment 79
13 Provisions 80

Taxation

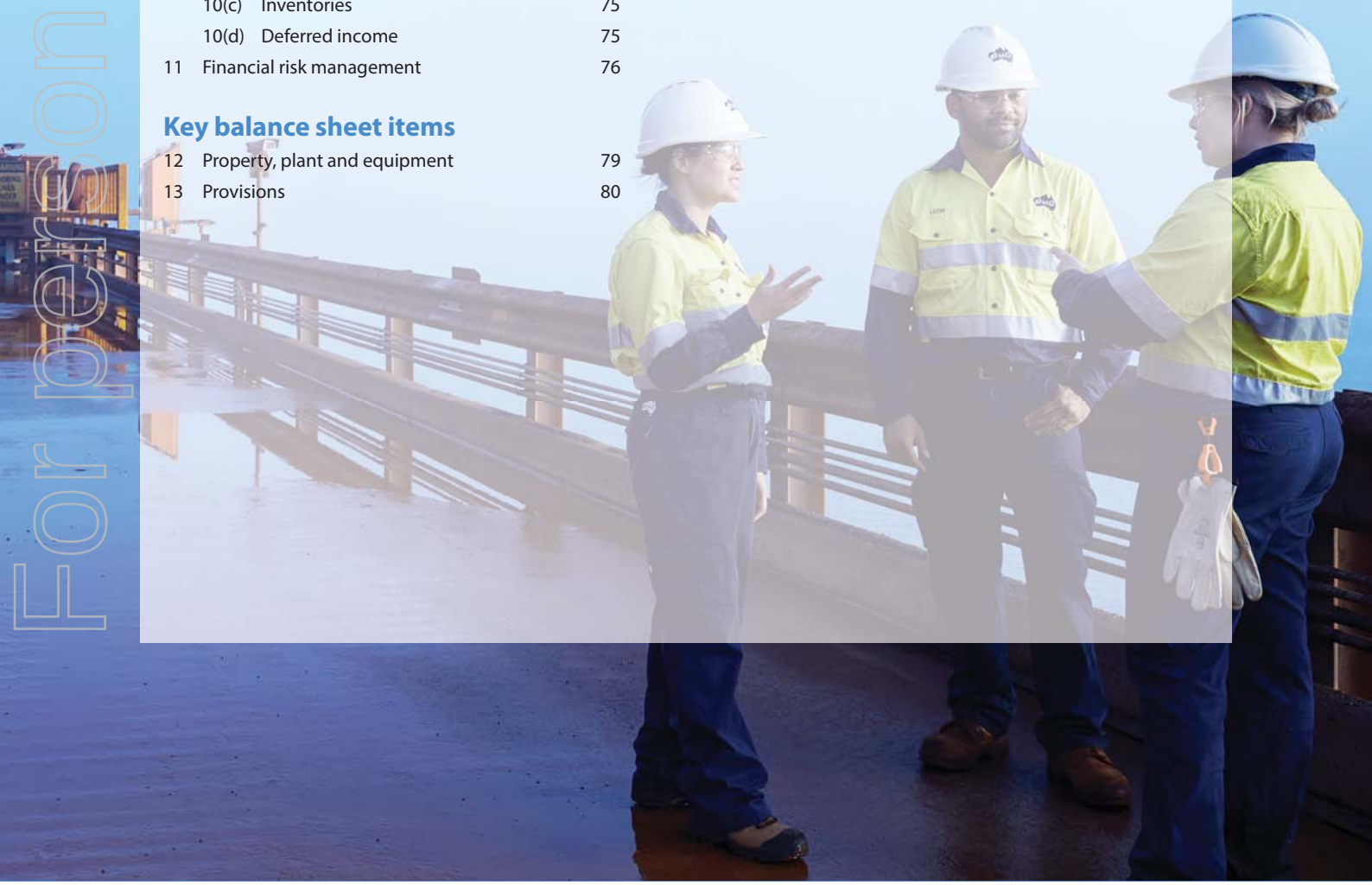
14 Taxation 81
14(a) Income tax expense 81
14(b) Deferred tax assets and liabilities 82
14(c) Unrecognised tax losses 83

Unrecognised items

15 Commitments and contingencies 84
16 Events occurring after the reporting period 84

Other information

17 Related party transactions 85
18 Share-based payments 86
19 Remuneration of auditors 87
20 Deed of cross guarantee 87
21 Parent entity financial information 88
22 Interests in other entities 89
23 Summary of significant accounting policies 90
24 Critical accounting estimates and judgements 99



For personal use only

1 Basis of preparation

The financial statements cover the consolidated group comprising Fortescue Metals Group Limited (the Company) and its subsidiaries, together referred to as Fortescue or the Group.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), including Australian Interpretations, and the *Corporations Act 2001*.

(a) Compliance with IFRS

The financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) Historical cost convention

The financial statements have been prepared under the historical cost convention, except for certain financial instruments, which have been measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in United States dollars, which is the Group's reporting currency and the functional currency of the Company and the majority of its subsidiaries.

(d) Critical accounting estimates

The preparation of financial statements requires management to use estimates, judgements and assumptions. Application of different assumptions and estimates may have a significant impact on Fortescue's net assets and financial results. Estimates and assumptions are reviewed on an ongoing basis and are based on the latest available information at each reporting date. Actual results may differ from the estimates.

The areas involving a higher degree of judgement and complexity, or areas where assumptions are significant to the financial statements are:

- Iron ore reserve estimates
- Exploration and evaluation expenditure
- Development expenditure
- Property, plant and equipment - recoverable amount
- Rehabilitation estimates.

The accounting estimates and judgements applied to these areas are disclosed in note 24.

(e) Changes in accounting policy - consolidated statement of cash flows

Under AASB 107 *Statement of Cash Flows*, interest can be classified as an operating, investing or financing activity and the Group had previously disclosed interest paid as a financing activity and interest received as an investing activity. In the current period, Fortescue changed its accounting policy to disclose interest as an operating activity in the consolidated statement of cash flows to better align with the policy adopted by its industry peers.

The impact of this change in policy is to reclassify US$412 million (FY16: US$599 million) of interest paid out of financing activities and US$19 million (FY16: US$22 million) of interest received out of investing activities into operating activities.

(f) Rounding of amounts

All amounts in the financial statements have been rounded to the nearest million dollars, except as indicated, in accordance with the ASIC Corporations Instrument 2016/191.

For personal use only

2 Segment information

Fortescue's chief operating decision maker, identified as the Chief Executive Officer, reviews the Group's financial performance and makes significant operating decisions having regard to all aspects of the integrated operation, with the key financial information presented internally for management purposes on a consolidated basis. Accordingly, no reportable operating segments have been identified in presenting the Group's consolidated financial performance.

Fortescue uses Underlying EBITDA defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses, as a key measure of its financial performance. The reconciliation of Underlying EBITDA to the net profit after tax is presented below.

	Note	2017 US$m	2016 US$m
Underlying EBITDA		**4,744**	**3,195**
Finance income	7	19	214
Finance expenses	7	(502)	(675)
Depreciation and amortisation	5, 6	(1,243)	(1,244)
Exploration, development and other	6	(51)	(136)
Profit before income tax		**2,967**	**1,354**
Income tax expense	14	(874)	(369)
Profit for the year after income tax		**2,093**	**985**

(a) Geographical information

Fortescue operates predominantly in the geographical location of Australia, and this is the location of the vast majority of the Group's assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	2017 US$m	2016 US$m
Revenue from external customers		
China	7,995	6,787
Other	452	296
	8,447	**7,083**

(b) Major customer information

Revenue from one customer amounted to US$3,702 million (2016: US$1,577 million), arising from the sale of iron ore and the related shipment of product.

3 Operating sales revenue

	2017 US$m	2016 US$m
Sale of iron ore	8,335	6,923
Other revenue	112	136
Sale of joint venture iron ore	-	24
	8,447	**7,083**

4 Other income

	2017 US$m	2016 US$m
Net foreign exchange gain	13	-
Other	1	7
	14	**7**

5 Cost of sales

	2017 US$m	2016 US$m
Mining and processing costs	1,780	2,092
Rail costs	192	201
Port costs	183	204
Operating leases	29	76
Shipping costs	929	781
Government royalty	545	446
Depreciation and amortisation	1,227	1,223
Other operating expenses	3	41
	4,888	**5,064**

Total employee benefits expense included in cost of sales and administration expenses is US$579 million (2016: US$538 million).

6 Other expenses

	2017 US$m	2016 US$m
Administration expenses	56	52
Exploration, development and other[1]	51	136
Depreciation and amortisation	16	21
Net foreign exchange loss	-	2
	123	**211**

[1] During the year ended 30 June 2016, exploration, development and other expenses included an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations of US$32 million, and provisions in relation to specific assets and capital projects deferred pending market conditions of US$59 million.

For personal use only

7 Finance income and finance expenses

	2017 US$m	2016 US$m
Finance income		
Interest income	19	22
Gain on early debt redemption	-	192
	19	**214**
Finance expenses		
Interest expense on borrowings and finance lease liabilities	430	621
Loss on early debt redemption	59	42
Other	13	12
	502	**675**

8 Earnings per share

(a) Earnings per share

	2017 Cents	2016 Cents
Basic	67.3	31.6
Diluted	67.0	31.6
(b) Reconciliation of earnings used in calculating earnings per share	**US$m**	**US$m**
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	2,093	984
(c) Weighted average number of shares used as the denominator	**Number**	**Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	3,111,190,703	3,111,801,515
Adjustments for calculation of diluted earnings per share:		
Potential ordinary shares	11,112,712	5,569,334
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	3,122,303,415	3,117,370,849

(d) Information on the classification of securities

Performance rights granted to employees under the Fortescue incentive plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. Details relating to the performance rights are set out in note 18.

For personal use only

For personal use only

9 Capital management

Fortescue's capital management policy supports its strategic objectives and provides a framework to maintain a strong capital structure to deliver consistent returns to its shareholders and sustain future developments and expansion of the business.

Fortescue's capital includes shareholders' equity, reserves and net debt. Net debt is defined as a combination of cash and cash equivalents, borrowings and finance lease liabilities.

	Note	2017 US$m	2016 US$m
Borrowings	9(a)	3,653	6,266
Finance lease liabilities	9(a)	818	505
Cash and cash equivalents	9(b)	(1,838)	(1,583)
Net debt		**2,633**	**5,188**
Equity attributable to equity holders of the Company		9,720	8,392
Non-controlling interest		14	14
Total equity		**9,734**	**8,406**

Capital management involves a continuous process of:

- Evaluating capital requirements against the risks arising from Fortescue's activities and its operating environment
- Raising, refinancing and repaying of debt
- Development, maintenance and implementation of the dividend policy, including the dividend reinvestment plan.

To achieve its primary capital management objective of maintaining a strong capital structure, Fortescue has developed target ranges for a number of financial indicators. These indicators include gearing, net gearing, debt to Underlying EBITDA and interest coverage ratio, and are monitored together with a number of other financial and non-financial indicators. Target ranges for the financial ratios vary upon the investment and commodity cycles. During periods of intensive investment, for example expansion programs, or a commodity downturn, the capital management policy contemplates interim ratio levels returning to a targeted longer term level. Interim levels acknowledge and consider the requirements, in certain circumstances, for remedial actions to be taken.

During the financial year ended 30 June 2017, Fortescue repaid US$2.7 billion of debt lowering gearing levels and improving credit metrics, together with a US$1.5 billion refinancing to extend the debt maturity profile and earliest maturity to 2022. The terms and conditions of Fortescue's debt facilitates its strategy of refinancing and debt repayment prior to maturity, with the 2022 senior secured notes prepayable from March 2018, at the Company's sole option. No financial maintenance covenants apply to any of the Company's debt.

(a) Borrowings and finance lease liabilities

	2017 US$m	2016 US$m
Senior secured notes	70	70
Senior unsecured notes	9	8
Finance lease liabilities	42	11
Senior secured credit facility	-	4
Total current borrowings and finance lease liabilities	**121**	**93**
Senior secured notes	2,093	2,082
Senior unsecured notes	1,481	475
Finance lease liabilities	776	494
Senior secured credit facility	-	3,627
Total non-current borrowings and finance lease liabilities	**4,350**	**6,678**
Total borrowings and finance lease liabilities	**4,471**	**6,771**

9 Capital management (continued)

(a) Borrowings and finance lease liabilities (continued)

(i) Refinancing

During the year ended 30 June 2017, Fortescue successfully completed a US$1,500 million senior unsecured notes issue. The proceeds were utilised to repay the remaining US$976 million of the senior secured credit facility and redeem the outstanding US$478 million of senior unsecured notes due to mature in April 2022.

(ii) Senior secured notes

The senior secured notes are due to mature in November 2022, have a face value of US$2,160 million (30 June 2016: US$2,160 million), a coupon rate of 9.75 per cent and will become callable at Fortescue's option from March 2018. The notes are secured over principally all of the assets of the Company and its subsidiaries, subject to certain limited exceptions, with the security shared on a pari passu basis with all existing and future senior unsecured indebtedness.

(iii) Senior unsecured notes

At 30 June 2017 the Company had the following senior unsecured notes on issue:

- Senior unsecured notes due to mature in May 2022, have a face value of US$750 million, a coupon rate of 4.75 per cent and have a non-call life of 5 years
- Senior unsecured notes due to mature in May 2024, have a face value of US$750 million, a coupon rate of 5.125 per cent and have a non-call life of 7 years.

At 30 June 2016 the senior unsecured notes on issue were due to mature in April 2022, had a face value of US$478 million and a coupon interest of 6.875 per cent. These notes were repaid in full during the year ended 30 June 2017.

(iv) Senior secured credit facility

During the year ended 30 June 2017, the senior secured credit facility was repaid in full through US$2.7 billion of voluntary debt repayments and US$976 million paid through refinancing. The facility was due to mature in June 2019 and as at 30 June 2016 had a face value of US$3,676 million and a coupon rate within a range of LIBOR + 2.75 to LIBOR + 3.25 per cent.

(v) Finance lease liabilities

Finance lease liabilities largely relate to contractual commitments associated with ore carriers, the Solomon Power Station, the Fortescue River Gas Pipeline and heavy mobile fleet. In the event of default, the assets revert to the lessor.

	Within one year US$m	Between one year and five years US$m	After five years US$m	Total US$m
30 June 2016				
Lease expenditure commitments	73	295	954	1,322
Effect of discounting	(63)	(245)	(509)	(817)
Finance lease liabilities	**10**	**50**	**445**	**505**
30 June 2017				
Lease expenditure commitments	120	468	1,093	1,681
Effect of discounting	(79)	(285)	(499)	(863)
Finance lease liabilities	**41**	**183**	**594**	**818**

For personal use only

9 Capital management (continued)

(a) Borrowings and finance lease liabilities (continued)

(vi) Summary of movements in borrowings and finance lease liabilities

	Senior secured notes US$m	Senior unsecured notes US$m	Finance leases US$m	Senior secured credit facility US$m	Total US$m
Balance at 1 July 2015	2,248	2,063	461	4,797	9,569
Initial recognition	-	-	51	-	51
Interest expense	221	104	61	235	621
Interest and finance lease repayments	(183)	(126)	(64)	(229)	(602)
Transaction costs	6	13	-	15	34
Foreign exchange gain	-	-	(4)	-	(4)
Repayments	(140)	(1,571)[1]	-	(1,187)	(2,898)
Balance at 30 June 2016	**2,152**	**483**	**505**	**3,631**	**6,771**
Balance at 1 July 2016	2,152	483	505	3,631	6,771
Initial recognition	-	1,500	323	-	1,823
Interest expense	221	41	70	98	430
Interest and finance lease repayments	(210)	(40)	(84)	(93)	(427)
Transaction costs	-	(16)	-	40	24
Foreign exchange loss	-	-	4	-	4
Repayments	-	(478)	-	(3,676)	(4,154)
Balance at 30 June 2017	**2,163**	**1,490**	**818**	**-**	**4,471**

[1] The year ended 30 June 2016 includes repayment of US$1,049 million of the 2019 senior unsecured notes and US$522 million of the 2022 senior unsecured notes.

Information about Fortescue's exposure to interest rate risk and foreign exchange rate risk disclosed in note 11.

(b) Cash and cash equivalents

	2017 US$m	2016 US$m
Cash at bank	923	769
Short term deposits	915	814
	1,838	**1,583**

Cash and cash equivalents do not have any restrictions by contractual or legal arrangements.

For personal use only

For personal use only

9 Capital management (continued)

(c) Cash flow information

(i) Reconciliation of profit after income tax to net cash inflow from operating activities

	2017 US$m	2016 US$m
Profit for the year after income tax	2,093	985
Depreciation and amortisation	1,243	1,244
Exploration, development and other	51	136
Share-based payment expense (benefit)	16	(3)
Net unrealised foreign exchange loss	2	22
Net loss (gain) on early debt redemption	59	(150)
Other non-cash items	32	21
Working capital adjustments:		
Decrease in trade and other receivables	101	52
(Increase) decrease in inventories	(34)	219
Decrease in other assets	28	28
Increase (decrease) in trade and other payables	67	(117)
Increase (decrease) in deferred income	115	(418)
Increase (decrease) in employee benefit provisions	8	(3)
Increase in current tax payable	418	302
Increase in deferred tax liabilities	57	128
Net cash inflow from operating activities	**4,256**	**2,446**

(ii) Non-cash investing and financing activities

	2017 US$m	2016 US$m
Acquisition of property, plant and equipment by means of finance leases	(110)	(51)

(d) Contributed equity

(i) Share capital

	Issued shares Number	Treasury shares Number	Contributed equity Number	Issued shares US$m	Treasury shares US$m	Contributed equity US$m
At 1 July 2015	3,113,798,151	(114,590)	3,113,683,561	1,296	(2)	1,294
Purchase of shares under employee share plans	-	(15,188,032)	(15,188,032)	-	(21)	(21)
Employee share awards exercised net of employee contributions	-	14,939,948	14,939,948	-	28	28
At 30 June 2016	**3,113,798,151**	**(362,674)**	**3,113,435,477**	**1,296**	**5**	**1,301**
Purchase of shares under employee share plans	-	(7,214,860)	(7,214,860)	-	(27)	(27)
Employee share awards exercised net of employee contributions	-	5,118,613	5,118,613	-	15	15
At 30 June 2017	**3,113,798,151**	**(2,458,921)**	**3,111,339,230**	**1,296**	**(7)**	**1,289**

For personal use only

9 Capital management (continued)

(d) Contributed equity (continued)

(ii) Issued shares

Issued shares are fully paid and entitle the holders to one vote per share and the rights to participate in dividends. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(iii) Treasury shares

Movements in treasury shares represent acquisition of the Company's shares on market and allocation of shares to the Company's employees from the vesting of awards and exercise of rights under the employee share-based payment plans.

(e) Dividends

(i) Dividends paid during the year

	2017 US$m	2016 US$m
Final fully franked dividend for the year ended 30 June 2016: A$0.12 per share (30 June 2015: A$0.02 per share)	285	46
Interim fully franked dividend for the half-year ended 31 December 2016: A$0.20 per share (31 December 2015: A$0.03 per share)	477	67
Total dividends paid	**762**	**113**

(ii) Dividends declared and not recognised as a liability

	2017 US$m	2016 US$m
Final fully franked dividend: A$0.25per share (2016: A$0.12 per share)	614	285

(iii) Franking credits

At 30 June 2017, franking credits available were A$856 million (2016: A$791million). The payment of the final dividend for the year ended 30 June 2017 will reduce the franking account balance by A$334 million.

10 Working capital

(a) Trade and other receivables

	2017 US$m	2016 US$m
Trade debtors - iron ore	113	210
GST receivables	9	11
Other receivables	19	20
Total current receivables	**141**	**241**
Other receivables	3	4
Total non-current receivables	**3**	**4**

The carrying value of the receivables approximates their fair value. Information about Fortescue's exposure to foreign currency risk, interest rate risk and price risk pertaining to the trade and other receivables balances is disclosed in note 11.

Disclosures relating to receivables from related parties are set out in note 17.

10 Working capital (continued)

(b) Trade and other payables

	2017 US$m	2016 US$m
Trade payables	234	190
Other payables and accruals	474	432
Total current payables	**708**	**622**
Customer deposits	50	50
Other payables and accruals	-	19
Total non-current payables	**50**	**69**

(c) Inventories

	2017 US$m	2016 US$m
Iron ore stockpiles	277	229
Warehouse stores and materials	311	325
Total inventories	**588**	**554**

Iron ore stockpiles, warehouse stores and materials are stated at cost. Inventories expensed through cost of sales, including depreciation, during the year ended 30 June 2017 amounted to US$3,411 million (2016: US$3,796 million). During the year, inventory write-offs of US$31 million (2016: US$11 million) were recognised in relation to specific items of warehouse stores and materials that were identified as obsolete.

(d) Deferred income

	2017 US$m	2016 US$m
Iron ore prepayments	350	374
Port access prepayment	111	111
Total current deferred income	**461**	**485**
Iron ore prepayments	447	197
Port access prepayment	-	111
Total non-current deferred income	**447**	**308**

For personal use only

For personal use only

11 Financial risk management

Fortescue is exposed to a range of financial risks, including market risk, credit risk and liquidity risk. Fortescue established a risk management framework that provides a structured approach to the identification and control of risks across the business, sets the appropriate risk tolerance levels and incorporates active management of financial risks. The risk management framework has been approved by the Board of Directors, through the Audit and Risk Management Committee. The day to day management responsibility for execution of the risk management framework has been delegated to the CEO and the CFO. Periodically the CFO reports to the Audit and Risk Management Committee on risk management performance, including management of financial risks.

The key elements of financial risk are further explained below.

(a) Market risk

Market risk arises from Fortescue's exposure to commodity price risk and the use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in iron ore price (commodity price risk), interest rates (interest rate risk) and foreign exchange rates (foreign currency exchange risk).

(i) Commodity price risk

Fortescue is exposed to the commodity price risk, as its iron ore sales are predominantly subject to the prevailing market prices. Fortescue has limited ability to directly influence market prices of iron ore and manages the commodity price risk through focus on improving its cash margins and strengthening the corporate balance sheet through refinancing and early debt repayments.

The majority of Fortescue's iron ore sales contracts are structured on a provisional pricing basis, with the final sales price determined using the iron ore price indices on or after the vessel's arrival to the port of discharge. The estimated consideration in relation to the provisionally priced contracts is marked to market using the spot iron ore price at the end of each reporting period with the impact of the iron ore price movements recorded as an adjustment to operating sales revenue. At 30 June 2017, Fortescue had 27 million tonnes of iron ore sales (2016: 14 million tonnes) that remained subject to provisional pricing, with the final price to be determined in the following financial year. A 15 per cent movement in the realised iron ore price on these provisionally priced sales would have an impact on the Group's profit of US$161 million (2016: US$85 million), before the impact of taxation. This analysis assumes all other factors, including the foreign currency exchange rates, held constant.

(ii) Interest rate risk

The Group's interest rate risk arises from variable rates on the finance leases relating to ore carriers and, to a lesser extent, changes in rates applicable to the short term deposits forming part of cash and cash equivalents.

Fortescue's policy is to reduce interest rate risk over the cash flows on its long term debt funding through the use of fixed rate instruments whenever appropriate.

Fortescue's variable rate financial assets and liabilities at the end of the financial year are summarised below:

	Note	2017 US$m	2016 US$m
Cash and cash equivalents	9(b)	1,838	1,583
Finance leases	9(a)	(213)	-
Senior secured credit facility		-	(3,631)
		1,625	**(2,048)**

Management analyses the Group's interest rate exposure on a regular basis by simulation of various scenarios taking into consideration refinancing, renewal of existing positions, alternative financing options and hedging.

A change of five basis points in interest rates in variable instruments would have an impact on the Group's profit of US$1 million (2016: US$1 million), before the impact of taxation. This analysis assumes that all other factors remain constant, including foreign currency rates.

11 Financial risk management (continued)

(a) Market risk (continued)

(iii) Foreign currency exchange risk

Fortescue operates in Australia, and is exposed to the movements in the Australian dollar exchange rate, with a significant portion of its operating costs and capital expenditure incurred and paid in Australian dollars.

Fortescue's risk management policy is to target specific levels at which to convert United States dollars to Australian dollars by entering into either spot or short term forward exchange contracts. The Group has not entered into transactions that qualify as hedging for hedge accounting purposes.

The carrying amounts of the financial assets and liabilities denominated in Australian dollars (expressed in US dollar), are set out below:

	2017 US$m	2016 US$m
Financial assets		
Cash and cash equivalents	19	30
Trade and other receivables	22	24
Total financial assets	**41**	**54**
Financial liabilities		
Borrowings and finance lease liabilities	150	143
Trade and other payables	351	336
Total financial liabilities	**501**	**479**

A change of five per cent in the Australian dollar exchange rate would have a net impact on the Group's profit of US$23 million (2016: US$21million), before the impact of taxation. This analysis assumes that all other variables, including interest rates and iron ore price, remain constant.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to Fortescue, and is managed on a consolidated basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and receivables from customers.

Fortescue is exposed to a concentration of credit risk with the majority of its iron ore customers located in China. This risk is mitigated by a policy of only trading with creditworthy counterparties and Fortescue further mitigates its credit risk by obtaining security in the form of letters of credit covering approximately 95 per cent of the value of iron ore shipped. Fortescue has not recognised any bad debt expense from trading counterparties in the years ended 30 June 2017 and 30 June 2016.

The exposure to the credit risk from cash and short-term deposits held in banks is managed by the treasury department and monitored by the CFO. Fortescue minimises the credit risks by holding funds with a range of financial institutions with credit ratings approved by the Board.

At 30 June 2017, Fortescue had US$5 million (2016: US$6 million) of trade receivables which have not been settled within the normal terms and conditions agreed with the customer. These past due receivables relate to a number of customers for whom there is no recent history of default and are not considered impaired.

For personal use only

11 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. Fortescue manages liquidity risk by maintaining adequate cash reserves and banking facilities, by continuously monitoring actual and forecast cash flows and by matching the maturity profiles of its assets and liabilities.

The table below analyses Fortescue's financial liabilities into relevant maturity groupings based on the period to the contracted maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months US$m	Between 6 and 12 months US$m	Between 1 and 2 years US$m	Between 2 and 5 years US$m	Over 5 years US$m	Total contractual cash flows US$m	Carrying amount US$m
30 June 2016							
Non-interest bearing	622	-	19	-	50	691	691
Fixed rate	158	158	318	951	3,835	5,420	3,140
Variable rate	73	70	140	3,820	-	4,103	3,631
	853	**228**	**477**	**4,771**	**3,885**	**10,214**	**7,462**
30 June 2017							
Non-interest bearing	708	-	-	50	-	758	758
Fixed rate	190	190	394	4,026	1,699	6,499	4,258
Variable rate	11	11	22	71	193	308	213
	909	**201**	**416**	**4,147**	**1,892**	**7,565**	**5,229**

Management monitors rolling forecasts of the Group's cash and overall liquidity position on the basis of expected cash flows.

(d) Fair values

All financial assets and financial liabilities, with the exception of derivatives, are initially recognised at the fair value of the consideration paid or received, net of directly attributable transaction costs. Subsequently, the financial assets and financial liabilities, other than derivatives, are measured at amortised cost.

Fortescue's listed debt instruments, including senior secured notes and senior unsecured notes are classified as level 1 financial instruments in the fair value hierarchy, with their fair values based on quoted market prices at the end of the financial year, as outlined below.

	2017		2016	
	Carrying value US$m	Fair value US$m	Carrying value US$m	Fair value US$m
Senior secured notes	2,163	2,460	2,152	2,386
Senior unsecured notes	1,490	1,507	483	455
Senior secured credit facility	-	-	3,631	3,499

The carrying values of other financial assets and financial liabilities approximate their fair values.

For personal use only

12 Property, plant and equipment

	Note	Plant and equipment US$m	Land and buildings US$m	Exploration and evaluation US$m	Assets under development US$m	Development US$m	Total US$m
Net carrying value							
At 1 July 2015		12,107	872	768	245	3,737	17,729
Transfer of assets		207	38	(19)	(255)	31	2
Additions		52	-	70	284	-	406
Depreciation		(898)	(61)	-	-	(241)	(1,200)
Changes in restoration and rehabilitation estimate	13(b)	-	-	(8)	-	61	53
Other		(12)	-	(39)	(47)	(25)	(123)
At 30 June 2016		**11,456**	**849**	**772**	**227**	**3,563**	**16,867**
Cost		14,993	1,044	772	227	4,397	21,433
Accumulated depreciation		(3,537)	(195)	-	-	(834)	(4,566)
Net carrying value							
At 1 July 2016		11,456	849	772	227	3,563	16,867
Transfer of assets		573	10	(4)	(602)	19	(4)
Additions		111	-	57	670	-	838
Depreciation		(984)	(62)	-	-	(218)	(1,264)
Changes in restoration and rehabilitation estimate	13(b)	-	-	1	-	68	69
Other		-	(1)	(13)	(4)	5	(13)
At 30 June 2017		**11,156**	**796**	**813**	**291**	**3,437**	**16,493**
Cost		15,677	1,053	813	291	4,489	22,323
Accumulated depreciation		(4,521)	(257)	-	-	(1,052)	(5,830)

Transfers of assets were made between the categories of property, plant and equipment, intangible assets, exploration and evaluation and development expenditure.

Property, plant and equipment includes assets held under finance leases of US$505 million (2016: US$434 million). The details of the finance leases under which these assets are held are disclosed in note 9(a).

During the year ended 30 June 2016 other movements included an impairment provision following suspension of the Nullagine Iron Ore Joint Venture operations for the full value of US$32 million, a provision in relation to specific assets and capital projects deferred pending market conditions of US$59 million, and a US$34 million write-off of previously capitalised exploration costs on relinquished tenements.

For personal use only

13 Provisions

	2017 US$m	2016 US$m
Employee benefits	174	167
Restoration and rehabilitation	53	-
Total current provisions	**227**	**167**
Employee benefits	3	2
Restoration and rehabilitation	506	487
Total non-current provisions	**509**	**489**

(a) Provision for employee benefits

Movements in the provision for employee benefits during the financial year are set out below:

	2017 US$m	2016 US$m
At 1 July	169	172
Changes in employee benefits provision	138	134
Amounts paid	(130)	(137)
At 30 June	**177**	**169**

Provision for employee benefits includes the Group's liability for long service leave, annual leave and employee incentives. The current portion includes all of the accrued annual leave and the portion of long service leave where employees have completed their required period of service. The estimated amount of current annual leave and long service leave not expected to be paid in the next 12 months is US$38 million (2016: US$30 million).

(b) Provision for restoration and rehabilitation

Movements in the provision for restoration and rehabilitation during the year are set out below:

	2017 US$m	2016 US$m
At 1 July	487	430
Changes in restoration and rehabilitation estimate	69	53
Unwinding of discount	3	4
At 30 June	**559**	**487**

The provision for restoration and rehabilitation has been made for all disturbed areas at the reporting date based on current cost estimates for rehabilitation and infrastructure removal, discounted to their present value based on expected timing of future cash flows.

Provisions for restoration and rehabilitation activities exclude ongoing rehabilitation performed as a part of normal operations.

For personal use only

14 Taxation

For the year ended 30 June 2017, Fortescue is a signatory to the Board of Taxation's voluntary Tax Transparency Code ("TTC"). The TTC recommends a number of additional tax disclosures to be publicly available, in two separate parts. The Part A disclosure requirements are included in this note.

(a) Income tax expense

	Consolidated group 2017 US$m	Consolidated group 2016 US$m
Current tax	817	241
Deferred tax	57	128
	874	**369**

(i) Prima facie income tax expense reconciliation

Fortescue operates in a number of jurisdictions and pays income taxes accordingly. The Company's effective corporate income tax rate is reflective of the statutory corporate income tax rates in each jurisdiction. The majority of the Group's taxes are paid in Australia consistent with the location of its mining operations. The Australian Group includes Fortescue's wholly-owned Australian entities.

For the year ended 30 June 2017, the Group's global effective tax rate was 29.5 per cent. This is in line with the Australia corporate tax rate of 30 per cent.

	Consolidated group 2017 US$m	Australian group 2017 US$m	Consolidated group 2016 US$m	Australian group 2016 US$m
Profit before income tax expense	2,967	2,913	1,354	1,321
Tax at the Australian tax rate of 30 per cent	890	874	406	396
Research and development	(4)	(4)	(8)	(8)
Adjustments in respect of income tax expense of prior periods	(1)	3	(15)	(15)
Foreign exchange variations and other transactions adjustments	(6)	(6)	(2)	(1)
Tax impact of overseas jurisdiction	-	7	5	5
Share based payments	(5)	(5)	(9)	(9)
Other	-	-	(8)	(10)
Income tax expense	**874**	**869**	**369**	**358**
Effective tax rate	29.5%	29.8%	27.3%	27.1%

For personal use only

14 Taxation (continued)

(a) Income tax expense (continued)

(ii) Reconciliation of income tax expense to current tax payable

	Consolidated group 2017 US$m	Consolidated group 2016 US$m
Income tax expense in the consolidated income statement	874	369
Deferred tax expense	(57)	(128)
Prior year under/over provision	6	72
	823	**313**
Tax payments made to tax authorities[1]	(115)	(39)
Impact of foreign exchange on income tax payable[2]	(23)	(7)
Current tax payable at 30 June	**685**	**267**

[1] In Australia Fortescue pays pay as you go (PAYG) instalments based on a set rate, as advised by the Australian Taxation Office.

[2] Fortescue's income tax payments are made in the local currency of the country where taxes are due, being predominantly Australian Dollars.

(b) Deferred tax assets and liabilities

Fortescue recognises a timing difference where there are differences between the accounting and tax treatment of an expense resulting in future tax payable or receivable amount. Deferred tax assets and liabilities are measured at the relevant tax rates enacted for the reporting period. The company's major deferred tax assets and liabilities also arise in Australia, specifically with reference to the level of capital investment in the Pilbara.

	Consolidated group 2017 US$m	Consolidated group 2016 US$m
Deferred tax assets	470	355
Deferred tax liabilities	(2,027)	(1,855)
	(1,557)	**(1,500)**

For personal use only

14 Taxation (continued)

(b) Deferred tax assets and liabilities (continued)

Composition of and movements in deferred tax assets and liabilities

	Deferred tax assets consolidated group		Deferred tax liabilities consolidated group		Charged / (credited) to the income statement consolidated group	
	2017 US$m	2016 US$m	2017 US$m	2016 US$m	2017 US$m	2016 US$m
Temporary differences arising from						
Exploration expenditure	-	-	(123)	(118)	(5)	(26)
Development	-	-	(540)	(510)	(30)	1
Property, plant and equipment	-	-	(1,220)	(1,079)	(141)	(169)
Inventories	-	-	(127)	(121)	(6)	41
Foreign exchange losses (gains)	-	1	(1)	(5)	4	(2)
Provisions	220	202	(1)	(5)	24	16
Other financial liabilities	225	139	(11)	(13)	88	12
Other items	25	13	(4)	(4)	9	(1)
	470	**355**	**(2,027)**	**(1,855)**	**(57)**	**(128)**

(c) Unrecognised tax losses

At 30 June 2017, the Group had income tax losses with a tax benefit of US$23 million (2016: US$12 million) which are not recognised as deferred tax assets. The Group recognises the benefit of tax losses only to the extent of anticipated future taxable income or gains in relevant jurisdictions. These losses do not expire.

For personal use only

15 Commitments and contingencies

	Capital US$m	Operating leases US$m	Total US$m
30 June 2016			
Within one year	290	61	351
Between one and five years	183	98	281
	473	**159**	**632**
30 June 2017			
Within one year	327	64	391
Between one and five years	16	24	40
	343	**88**	**431**

(i) Capital commitments

At 30 June 2017, Fortescue had contractual commitments to capital expenditure not recognised as liabilities, including commitments associated with the construction of ore carriers of US$196 million (2016: US$271 million) within 12 months and nil (2016: US$183 million) between one and five years, after the end of the year.

(ii) Operating lease commitments

Fortescue leases various offices and other premises under non-cancellable operating leases expiring within one to four years. The leases have varying terms, escalation clauses and renewal rights. The terms of the leases are renegotiated on renewal. Fortescue also leases mobile equipment, plant and machinery and office equipment under non-cancellable operating leases. The leases have varying terms.

Fortescue had no material contingent liabilities or contingent assets at 30 June 2017 or at the date of this report. Fortescue occasionally receives claims arising from its activities in the normal course of business. In the opinion of the Directors, all such matters are covered by insurance or, if not covered, are without merit or are of such a kind or involve such amounts that would not have a material adverse impact on the operating results or financial position if settled unfavourably.

16 Events occurring after the reporting period

On 20 July 2017, the Federal Court handed down its reasons for judgment on the matter of *Warrie (formerly TJ) (on behalf of the Yindjibarndi People) v State of Western Australia,* in which Fortescue is the second respondent. In the Company's view, the Court's decision has no impact on the current and future operations or mining tenure at the Solomon Hub. Fortescue has no commercial concerns and does not anticipate any material impact following the decision.

On 28 July 2017, the Company executed a US$525 million revolving credit facility.

On 1 August 2017, the Company announced the repurchase of the Solomon Power Station for a total of US$348 million.

On 21 August 2017, the Directors declared a final dividend of 25 Australian cents per ordinary share payable in October 2017.

For personal use only

17 Related party transactions

(a) Subsidiaries and joint operations

Interests in significant subsidiaries and joint operations are set out in note 22.

(b) Key Management Personnel remuneration

	2017 US$'000	2016 US$'000
Short term employee benefits	7,469	8,161
Share-based payments	2,273	(1,242)
Post employment benefits	141	135
	9,883	**7,054**

Detailed information about the remuneration received by each Key Management Personnel is provided in the remuneration report on pages 101 to 132.

(c) Transactions with other related parties

The following transactions occurred with joint operations partners:

	2017 US$'000	2016 US$'000
Other revenue	2,785	30,749
Deferred joint venture contributions	265,800	253,361
Current receivables	274	1,742

The deferred joint venture contributions liability reflects the timing of cash call contributions to the Iron Bridge Joint Venture by Fortescue and other joint operation partners.

For personal use only

18 Share-based payments

(a) Employee Performance Rights Plans

During the year ended 30 June 2017, Fortescue issued 1,874,545 (2016: 3,870,459) short term performance rights and 3,666,789 (2016: 9,211,984) long term performance rights to employees and senior executives, convertible to one ordinary share per right. The short term rights vest over one year, and the long term rights vest over three years and have an exercise price of nil (2016: nil).

	2017	2016
	Number	Number
Outstanding at 1 July	18,355,858	11,622,892
Performance rights granted	5,541,334	13,082,443
Performance rights forfeited or lapsed	(5,122,418)	(2,866,096)
Performance rights converted or exercised	(2,979,750)	(3,483,381)
Outstanding at 30 June	**15,795,024**	**18,355,858**

The weighted average fair value of performance rights granted during the year ended 30 June 2017 was A$4.85 per right (2016: A$1.79) for the short term performance rights and A$4.61 per right (2016: A$1.72) for the long term performance rights. The estimated fair value of the short term performance rights was determined using a trinomial option pricing model and the estimated fair value of the long term performance rights was determined using a combination of analytical approaches, binomial tree and Monte-Carlo simulation. The fair value estimation takes into account the exercise price, the effective life of the right, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

The weighted average inputs used to determine the fair value of performance rights granted during the year ended 30 June 2017 were:

- Share price: A$4.99 (2016: A$1.81)
- Exercise price: nil (2016: nil)
- Volatility: 68 per cent (2016: 52 per cent)
- Effective life: 2.2 years (2016: 2.2 years)
- Dividend yield: 3.5 per cent (2016: 2 per cent)
- Risk free interest rate: 2 per cent (2016: 2 per cent)

Details of performance rights outstanding at 30 June 2017 are presented in the following table:

	Exercise price	Balance at the end of the year	Vested and exercisable at the end of the year	Remaining contractual life	Vesting conditions	
	A$	Number	Number	Years	Market	Non-market
Short term performance rights 2016	-	1,376,649	1,376,649	13.5	-	Yes
Short term performance rights 2017	-	1,719,915	-	14.3	-	Yes
Long term performance rights 2015	-	2,643,422	-	0.3	-	Yes
Long term performance rights 2016	-	6,800,593	-	13.5	Yes	Yes
Long term performance rights 2017	-	3,254,445	-	14.3	Yes	Yes
	-	**15,795,024**	**1,376,649**			

(b) Employee expenses

Total expenses arising from share-based payments transactions recognised during the period as part of employee benefit expense were as follows:

	2017 US$m	2016 US$m
Share-based payment expense (benefit)	16	(3)

For personal use only

19 Remuneration of auditors

PricewaterhouseCoopers Australia	2017 US$'000	2016 US$'000
Audit and other assurance services		
Audit and review of financial statements	791	722
Other assurance services	338	34
Total audit and assurance services	**1,129**	**756**
Other services		
Consulting services	122	194
Total remuneration of PricewaterhouseCoopers Australia	**1,251**	**950**
Network firms of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Audit and review of financial statements	63	46
Other assurance services	-	-
	63	**46**
Total auditor's remuneration	**1,314**	**996**

20 Deed of cross guarantee

Fortescue Metals Group Limited and certain of its subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Corporation Instrument 2016/785 issued by the Australian Securities and Investments Commission.

Holding entity

- Fortescue Metals Group Limited

Group entities

- FMG Pilbara Pty Limited
- Chichester Metals Pty Limited
- FMG Resources (August 2006) Pty Limited
- International Bulk Ports Pty Limited
- The Pilbara Infrastructure Pty Limited
- FMG Solomon Pty Limited

During the year ended 30 June 2017, these group entities were added to the deed of cross guarantee:

- FMG Nyidinghu Pty Limited
- FMG Procurement Services Pty Limited
- Pilbara Gas Pipeline Pty Limited
- Pilbara Marine Pty Limited
- Pilbara Power Pty Limited
- FMG JV Company Pty Limited
- FMG Ashburton Pty Limited
- Pilbara Mining Alliance Pty Limited
- Fortescue Services Pty Limited
- FMG Personnel Pty Limited
- FMG Personnel Services Pty Limited
- CSRP Pty Limited
- FMG Training Pty Limited

(a) Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity

The consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity for the year ended 30 June 2017 along with the consolidated statement of financial position at 30 June 2017 for the closed group and the extended closed group represented by the above companies are materially the same as that of the Group.

For personal use only

21 Parent entity financial information

(a) Summary financial information

	2017 US$m	2016 US$m
Current assets	158	101
Non-current assets	10,161	10,273
Total assets	**10,319**	**10,374**
Current liabilities	759	325
Non-current liabilities	43	85
Total liabilities	**802**	**410**
Net assets	**9,517**	**9,964**
Contributed equity	1,289	1,301
Reserves	22	14
Retained earnings	8,206	8,649
Total equity	**9,517**	**9,964**
Profit for the year	319	601
Total comprehensive income for the year	**319**	**601**

The parent entity's financial information has been prepared using the same basis, including the accounting policies, as the consolidated financial information, except as outlined below:

- Investments in subsidiaries, associates and joint operations have been accounted for at cost; and
- Profit for the year includes dividends received from subsidiaries of US$410 million (2016: US$500 million).

(b) Guarantees entered into by the parent entity

The parent entity is a party to the following guarantees:

- Deed of cross guarantee, as described in note 20; and
- Guarantees forming part of Fortescue's senior debt arrangements associated with the senior secured notes and the senior unsecured notes. The senior secured notes include providing security to the secured debt holders with respect to the assets of the Company and certain of its subsidiaries, as described in note 9(a).

No liability was recognised by the parent entity or the Group in relation to these guarantees.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities at 30 June 2017 or 30 June 2016.

For personal use only

22 Interests in other entities

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries, in accordance with the accounting policy described in note 23(a)(i):

			Equity holding		Investment	
Controlled entities	Country of incorporation	Class of shares	2017 %	2016 %	2017 US$	2016 US$
Chichester Metals Pty Ltd	Australia	Ordinary	100	100	1	1
FMG International Pte Ltd	Singapore	Ordinary	100	100	209,053	209,053
FMG International Shipping Pte Ltd	Singapore	Ordinary	100	100	1	1
FMG Iron Bridge Ltd	Hong Kong	Ordinary	88	88	43,557,023	43,557,023
FMG Magnetite Pty Ltd	Australia	Ordinary	88	88	1	1
FMG North Pilbara Pty Ltd	Australia	Ordinary	88	88	1	1
FMG Pilbara Pty Ltd	Australia	Ordinary	100	100	1	1
FMG Procurement Services	Australia	Ordinary	100	100	1	1
FMG Resources (August 2006) Pty Ltd	Australia	Ordinary	100	100	1	1
FMG Solomon Pty Ltd	Australia	Ordinary	100	100	1	1
Karribi Developments Pty Ltd	Australia	Ordinary	100	100	1	1
Pilbara Housing Services Pty Ltd	Australia	Ordinary	100	100	1	1
Pilbara Power Pty Ltd	Australia	Ordinary	100	100	1	1
The Pilbara Infrastructure Pty Ltd	Australia	Ordinary	100	100	1	1
FMG Hong Kong Shipping Ltd	Hong Kong	Ordinary	100	-	64,837,148	-

(b) Joint operations

The consolidated financial statements incorporate Fortescue's share in the assets, liabilities and results of the following principal joint operations, in accordance with the accounting policy described in note 23(a)(ii):

				Participating interest %	
Joint operations	Country of incorporation	Holding entity	Principal activities	2017	2016
Iron Bridge Joint Venture	Australia	FMG Magnetite Pty Ltd	Development of magnetite assets and production of magnetite concentrate	69	69
Glacier Valley Joint Venture	Australia	FMG North Pilbara Pty Ltd	Iron ore exploration	69	69
Nullagine Iron Ore Joint Venture	Australia	FMG Pilbara Pty Ltd	Iron ore mining and processing[1]	N/A	25

[1] During the year ended 30 June 2017, Fortescue acquired the remaining 75 per cent interest in the Nullagine Iron Ore Joint Venture. During the year ended 30 June 2016, the operations of the Nullagine Iron Ore Joint Venture were suspended pending market conditions.

For personal use only

23 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

(a) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, being the entities controlled by the Company. Control exists when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full. Subsidiaries are consolidated from the effective date of acquisition to the effective date of disposal.

The acquisition method of accounting is used to account for the Group's business combinations.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(ii) Joint arrangements

A joint arrangement is an arrangement when two or more parties have joint control. Joint control exists when the parties agree contractually to share control over the activities that significantly affect the entity's returns (relevant activities), and the decisions about relevant activities require the unanimous consent of the parties sharing joint control.

Joint arrangements are classified as either joint operations or joint ventures, based on the contractual rights and obligations between the parties to the arrangement.

Joint operations

If the contractual arrangement specifies a right to the assets and the obligations for the liabilities for the parties, the arrangement is classified as a joint operation. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in note 22.

To support operations and construction projects of some of the joint operations, Fortescue and other parties to the joint arrangements are required, from time to time, to contribute funds in the form of cash calls, in proportion to their respective interests in the joint arrangements. These funds, if contributed by the parties to the joint arrangements in different financial years, may give rise to deferred joint venture contribution assets or liabilities.

Joint ventures

If the contractual arrangement grants the parties the right to the arrangement's net assets, it is classified as a joint venture. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

(b) Employee share trust

The Group has formed a trust to administer its employee share schemes. The trust is consolidated as the substance of the relationship is that the trust is controlled by the Group. Shares held by the share trust are disclosed as treasury shares and deducted from contributed equity.

(c) Foreign currency translation

Transactions in foreign currencies have been converted at rates of exchange at the date of those transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange of the reporting date, with the resulting gains and losses recognised in the income statement, except as set out below:

- For qualifying cash flow hedges, the gains and losses arising on foreign currency translations are deferred in other comprehensive income
- Translation differences on site rehabilitation provisions are capitalised as part of the development assets.

Gains and losses on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Fortescue recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described on the following page.

For personal use only

23 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(i) Sale of products

Revenue from the sale of products is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, indicating that there has been a transfer of risks and rewards of ownership to the customer, no further work or processing is required by the Group, the quantity and quality of the products have been determined with reasonable accuracy, the price can be reasonably estimated and collectability is reasonably assured.

For iron ore sales, the above conditions are generally satisfied when title passes to the customer, typically on the bill of lading date when ore is delivered to the vessel. Accordingly, revenue from sales of iron ore is recognised on the bill of lading date at an invoiced amount.

For the majority of Fortescue's contracts the sale price included in the original invoice is referred to as the provisional price and is subsequently adjusted to reflect market prices over a quotation period stipulated in the sales contract, typically on or after the vessel's arrival to the port of discharge. Refer to note 11(a)(i) for further information on provisionally priced contracts, including accounting for mark to market adjustments.

(ii) Services revenue

Revenue from the provision of services is recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is accrued using the effective interest rate method.

(e) Deferred income

Deferred income represents payments collected but not earned at the end of the reporting period. These payments are recognised as revenue when the goods are delivered or services are provided.

(f) Income tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction. Income tax on the profit or loss for the period comprises current and deferred tax.

Current income tax charge is calculated on the basis of the taxation laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Current income tax represents the expected tax payable on the taxable income for the year and any adjustments to tax payable in respect to previous years.

Where the amount of tax payable or recoverable is uncertain, a provision is established based on the Group's understanding of applicable tax law at the time. Settlement of these matters may result in changes to current and deferred income tax if the settlement differs from the provision.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for future deductible temporary differences and carry forward of unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fortescue and its wholly-owned Australian entities have implemented the tax consolidation legislation at 1 July 2002, namely the FMG tax consolidated group, and are therefore taxed as a single entity from that date. FMG Iron Bridge (Aust) Pty Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as at 28 September 2011, namely the FMG Iron Bridge tax consolidated group, and are therefore taxed as a single entity from that date.

The head entity and the controlled entities in both tax consolidated groups continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in each tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, the head entity of each group also recognises the current tax liabilities, or assets, and the deferred tax assets it has assumed from unused tax losses and unused tax credits from controlled entities in each corresponding tax consolidated group.

For personal use only

23 Summary of significant accounting policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, short term deposits and other short-term highly liquid investments that are subject to an insignificant risk of changes in value, and are readily convertible to known amounts of cash.

(h) Trade receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectibility of trade receivables is reviewed on a monthly basis. When there is objective evidence that Fortescue will not be able to collect all amounts due according to the original terms of the receivables, an allowance for impairment of trade receivables is raised. Total receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial re-organisation and default or delinquency in payments are considered indicators that the trade receivable may not be collected. The amount of the impairment allowance is the difference between the trade receivable's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment allowance is recognised in the income statement within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other administration expenses.

(i) Inventories

Warehouse stores and materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost for raw materials and stores is determined as the purchase price. For partly processed and saleable iron ore, cost is based on the weighted average cost method and includes:

- Materials and production costs, directly attributable to the extraction, processing and transportation of iron ore to the existing location
- Production and transportation overheads
- Depreciation of property, plant and equipment used in the extraction, processing and transportation of iron ore.

Iron ore stockpiles represent iron ore that has been extracted and is available for further processing or sale. Quantities are assessed primarily through internal and third party surveys. Where there is an indication that inventories are obsolete or damaged, these inventories are written down to net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Financial assets

Fortescue classifies its financial assets into loans and receivables and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are initially measured at fair value and subsequently carried at amortised cost. At the end of each reporting period loans and receivables are reviewed for impairment, with the difference between the carrying amount and the present value of estimated future cash flows recognised in the income statement.

(ii) Financial assets through profit or loss

This category comprises only derivative financial instruments. They are carried in the balance sheet at fair value with changes in fair value recognised in profit or loss.

(k) Financial liabilities

(i) Trade payables

Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid.

(ii) Borrowings

Borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are derecognised when the contractual obligations are discharged, cancelled or expire, or when the terms of an existing borrowing are substantially modified. Any difference between the carrying amount of a derecognised liability and the carrying amount of the new liability is recognised in the income statement.

For personal use only

23 Summary of significant accounting policies (continued)

(k) Financial liabilities (continued)

(iii) Finance lease liabilities

The Group has finance lease liabilities in relation to certain items of property, plant and equipment. Finance lease liabilities are initially recognised at the fair value of the underlying assets or, if lower, the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance cost and the finance cost is charged to the income statement over the lease period to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

(l) Property, plant and equipment

(i) Recognition and measurement

Each class of property, plant and equipment is stated at historical cost less, where applicable, any accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing an asset to a working condition ready for its intended use. Assets under construction are recognised in assets under development. Upon commissioning, which is the date when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management, the assets are transferred into property, plant and equipment or development assets, as appropriate.

Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

When separate parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

Gains and losses arising on disposal of property, plant and equipment are recognised in the income statement and determined by comparing proceeds from the sale of the assets to their carrying amount.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these subsequent costs will flow to Fortescue and the cost of the item can be measured reliably. Ongoing repairs and maintenance are recognised as an expense in the income statement during the financial period in which they are incurred.

(iii) Depreciation

Depreciation of assets, other than land which is not depreciated, is calculated using the straight-line method or units of production method, net of residual values, over estimated useful lives. Depreciation commences on the date when an asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Assets acquired under finance leases are depreciated over the shorter of the individual asset's useful life and the lease term.

Straight-line method

Where the useful life is not linked to the quantities of iron ore produced, assets are generally depreciated on a straight-line basis. The estimated useful lives for the principal categories of property, plant and equipment depreciated on a straight-line basis are as follows:

- Buildings 20 to 40 years
- Rolling stock 25 to 30 years
- Plant and equipment 2 to 20 years
- Rail and port infrastructure assets 40 to 50 years.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

Units of production method

Where the useful life of an asset is directly linked to the extraction of iron ore from a mine, the asset is depreciated using the units of production method. The units of production method is an amortised charge proportional to the depletion of the estimated proven and probable reserves at the mines.

For personal use only

23 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

(iv) Exploration, evaluation and development expenditure

Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure incurred is accumulated and capitalised in respect of each identifiable area of interest, and carried forward to the extent that:

- Rights to tenure of the identifiable area of interest are current; and
- At least one of the following conditions is also met:
  - (i) The expenditure is expected to be recouped through the successful development of the identifiable area of interest, alternatively by its sale; or
  - (ii) Where activities in the identifiable area of interest have not, at the reporting date, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and activities in, or in relation to, the area of interest, are continuing.

Exploration and evaluation assets are reviewed at each reporting date for indicators of impairment and tested for impairment where such indicators exist. If the test indicates that the carrying value might not be recoverable, the asset is written down to its recoverable amount. These charges are recognised within exploration, development and other expenses in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to development expenditure.

Development expenditure includes capitalised exploration and evaluation costs, pre-production development costs, development studies and other expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide that it is not commercially or technically feasible, any accumulated cost in respect of that area is written off in the financial period that the decision is made. Each area of interest is reviewed at the end of each accounting period and the accumulated costs written off to the income statement to the extent that they will not be recoverable in the future.

Amortisation of development costs capitalised is charged on a unit of production basis over the life of estimated proven and probable reserves at the mines.

(m) Stripping costs

(i) Development stripping costs

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping and the directly attributable costs, inclusive of an allocation of relevant overhead expenditure, are capitalised as development costs. Capitalisation of development stripping costs ceases and amortisation of those capitalised costs commences upon commercial extraction of ore. Amortisation of capitalised development stripping costs is determined on a unit of production basis for each area of interest.

Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

(ii) Production stripping costs

Overburden and other mine waste materials continue to be removed throughout the production phase of the mine. This activity is referred to as production stripping, with the associated costs charged to the income statement, as operating cost, except when all three criteria below are met:

- Production stripping activity provides improved access to the specific component of the ore body, and it is probable that economic benefit arising from the improved access will be realised in future periods
- The Group can identify the component of the ore body for which access has been improved
- The costs relating to the production stripping activity associated with that component can be measured reliably.

For personal use only

For personal use only

23 Summary of significant accounting policies (continued)

(m) Stripping costs (continued)

(ii) Production stripping costs (continued)

If all of the above criteria are met, production stripping costs resulting in improved access to the identified component of the ore body are capitalised as part of development asset and are amortised over the life of the component of the ore body.

The determination of components of the ore body is individual for each mine. The allocation of costs between production stripping activity and the costs of ore produced is performed using relevant production measures, typically strip ratios. Changes to the mine design, technical and economic parameters affecting life of the components and strip ratios, are accounted for prospectively.

(n) Leases

Leases of assets where Fortescue, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired under finance leases are capitalised at the lower of the fair value of the underlying assets or the present value of the future minimum lease payments. The corresponding finance lease liability is classified as borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Fortescue as lessee are classified as operating leases. Payments made under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

(o) Rehabilitation provision

Provisions are recognised when Fortescue has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The mining, extraction and processing activities of Fortescue give rise to obligations for site rehabilitation. Rehabilitation obligations include decommissioning of facilities, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value using Australian Government bond market yields that match, as closely as possible, the timing of the estimated future cash outflows. The judgements and estimates applied for the estimation of the rehabilitation provisions are discussed in note 24.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised into the cost of mine development assets, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised within development assets and is amortised based on the units of production method over the life of the mine. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in finance costs.

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, inflation, changes to the estimated reserves and lives of operations, new regulatory requirements, environmental policies and revised discount rates. Changes to the rehabilitation liability are added to or deducted from the related rehabilitation asset and amortised accordingly.

(p) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an internal review of asset values at each reporting date, which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less direct costs to sell and the asset's value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined using independent market assumptions to calculate the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted using an appropriate discount rate to arrive at a net present value of the asset.

23 Summary of significant accounting policies (continued)

(p) Impairment of non-financial assets (continued)

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is determined by applying assumptions specific to the Group's continued use and does not take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable groups of assets and liabilities that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impaired assets are reviewed for possible reversal of the impairment at each reporting date.

(q) Finance costs

Finance costs principally represent interest expense and are recognised as incurred except when associated with major projects involving substantial development and construction periods. In addition, finance costs include losses arising on derecognition of finance liabilities at above their carrying value, unwinding of the discount on provisions and bank charges.

Interest expense and other borrowing costs directly attributable to major projects are added to the cost of the project assets until such time as the assets are substantially ready for their intended use or sale. Where funds are used to finance an asset form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings during the construction period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(r) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables and accruals in respect of employee services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, probability of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on Australian Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. The liability for long service leave for which settlement within 12 months of the reporting date cannot be deferred is recognised in the current provision. The liability for long service leave for which settlement can be deferred beyond 12 months from the reporting date is recognised in the non-current provision.

(s) Share-based payments

Share-based remuneration benefits are provided to employees under the Fortescue's Performance Rights Plan, as set out in note 18.

The fair value of rights is measured at grant date and is recognised as an employee benefits expense over the period during which the employees become unconditionally entitled to the rights, with a corresponding increase in equity.

The fair value at grant date is determined using trinomial option pricing model that takes into account the exercise price, the term of the right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield and the risk free interest rate for the term of the right.

The fair value of the rights granted is measured to reflect expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

For personal use only

23 Summary of significant accounting policies (continued)

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing profit for the year after income tax attributable to the ordinary shareholders by the weighted average number of ordinary shares on issue during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share is calculated by dividing profit for the year after income tax attributable to the ordinary shareholders by the weighted average number of ordinary shares on issue during the financial year, after adjusting for the effects of all potential dilutive ordinary shares that were outstanding during the financial year.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which is disclosed as an operating cash flow.

(w) Comparatives

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

(x) New accounting standards and interpretations

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2016:

- AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations
- AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2015-1 Amendments to Australian Accounting Standards - Annual improvements to Australian Accounting Standards 2012 - 2014 cycle
- AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure initiative: Amendments to AASB 101.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods. There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

For personal use only

23 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

(ii) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods. These standards and interpretations have not been early adopted.

AASB 9 *Financial Instruments* (effective for annual reporting periods beginning on or after 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Fortescue has determined that AASB 9 will have no material impact on the way the Group accounts for its financial instruments.

AASB 15 *Revenue from Contracts with Customers* (effective for annual reporting periods beginning on or after 1 January 2018)

AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018). AASB 15 introduces new framework for accounting for revenue and will replace AASB 118 Revenue and AASB 111 Construction Contracts. The new standard is based on the principle that revenue is recognised when control over goods and services transfers to a customer, therefore the notion of control replaces the existing notion of risks and rewards.

Fortescue sells a significant proportion of its products on CFR terms which requires the Group to be responsible for providing shipping services after the date at which control of the goods passes to the customer at the port of loading. AASB 15 requires the individual components of revenue to be recognised separately and freight revenue is likely to be deferred until the product is delivered rather than when the product is shipped. No other areas are expected to be significantly impacted.

AASB 16 *Leases* (effective for annual reporting periods beginning on or after 1 January 2019)

AASB 16 introduces new framework for accounting for leases and will replace AASB 117 Leases. The new standard will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts.

As at 30 June 2017, Fortescue has non-cancellable operating leases in relation to office rentals, vehicles and vessels. Management is continuing to determine the extent that these operating leases will be recognised as assets and liabilities on the Company's statement of financial position, the impact on profit and classification of the related cash flows. Some of the operating leases in existence at the reporting date will be exempt on the basis of being short-term or low value, some relate to arrangements that will not qualify as leases under the new standard and some will be subject to renewal prior to the implementation.

For personal use only

For personal use only

24 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements and estimates and form assumptions that affect how certain assets, liabilities, revenue, expenses and equity are reported. At each reporting period, management evaluates its judgements and estimates based on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Fortescue has identified the following critical accounting policies where significant judgements and estimates are made by management in the preparation of these financial statements.

(a) Iron ore reserve estimates

Iron ore reserves are estimates of the amount of product that can be economically and legally extracted from Fortescue's current mining tenements. In order to calculate ore reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and grade of ore reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This requires complex and difficult geological judgements and calculations to interpret the data.

As economic assumptions used to estimate reserves change and as additional geological data is generated during the course of operations, estimates of reserves may vary from period to period. Changes in reported reserves may affect Fortescue's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges in the income statement may change where such charges are determined by the units of production method, or where the useful economic lives of assets change
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

(b) Exploration and evaluation expenditure

Fortescue's accounting policy for exploration and evaluation expenditure results in expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the income statement.

(c) Development expenditure

Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied by management in determining when a project is commercially viable and technically feasible. In exercising this judgement, management is required to make certain estimates and assumptions as to the future events. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the relevant capitalised amount will be written off to profit and loss.

(d) Property, plant and equipment – recoverable amount

The determination of fair value and value in use requires management to make estimates about expected production and sales volumes, commodity prices, reserves (see 'iron ore reserve estimates' in note 24(a)), operating costs, rehabilitation costs and future capital expenditure. Changes in circumstances may alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged to the income statement.

(e) Rehabilitation estimates

Fortescue's accounting policy for the recognition of rehabilitation provisions requires significant estimates including the magnitude of possible works required for the removal of infrastructure and of rehabilitation works, future cost of performing the work, the inflation and discount rates and the timing of cash flows. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

Fortescue's Values



Safety

Look out for our mates and ourselves



Empowerment

Take action and encourage your team



Family

Care for your work mates



Frugality

Use your brain not your cheque book



Stretch targets

Deliver against challenging targets



Integrity

Do what you say you're going to do



Enthusiasm

Be positive, energetic



Courage and determination

Never, ever give up



Generating ideas

Always be on the lookout for better ways



Humility

Show vulnerability in leadership



Fortescue's Vision

The safest, lowest cost, most profitable iron ore producer

Realising this Vision is at the heart of everything the Company does. Supporting this Vision are unique Values which drive the Company's performance in a way that sets Fortescue apart.

For personal use only

REMUNERATION REPORT





The year in review

For personal use only

For personal use only

Remuneration and Nomination Committee Chair

Sharon Warburton



On behalf of the Directors of Fortescue Metals Group Limited I am pleased to present the Remuneration and Nomination Report for the year ended 30 June 2017.

Improved Safety

33% ↑

2.9 Total Recordable Injury Frequency Rate

Consistent Production

1% ↑

170.4 mt

Reduced Cost

17% ↓

US$12.82 /wmt

Culture 92% participation in Safety Excellence and Culture Survey

During FY17, the Company has achieved outstanding results. Shareholders continued to benefit from the excellent and world leading performance being delivered by our Executives and all of their teams in safety, production and operating cost improvement.

Now recognised as the lowest cost provider of seaborne iron ore to China, the outcomes delivered by Fortescue across all key measures underpin the US$2,093 million net profit achieved, an 112 per cent increase over FY16.

Culture driving remuneration strategy

Fortescue's remuneration strategy is underpinned by its strong performance culture of setting stretch targets, striving to achieve them and rewarding success. Short and long-term incentive targets are set at challenging levels designed to drive innovation, continual value creation and long-term business sustainability and growth. The Board exercises its discretion to recognise outstanding levels of achievement, including where Fortescue's challenging stretch targets may have been missed by a very small margin, yet are market leading against global peers.

The Company's values-driven culture continues to deliver high levels of engagement demonstrated by the annual safety and culture survey with substantial improvement across all key survey metrics. Diversity is recognised as a fundamental driver of business success.

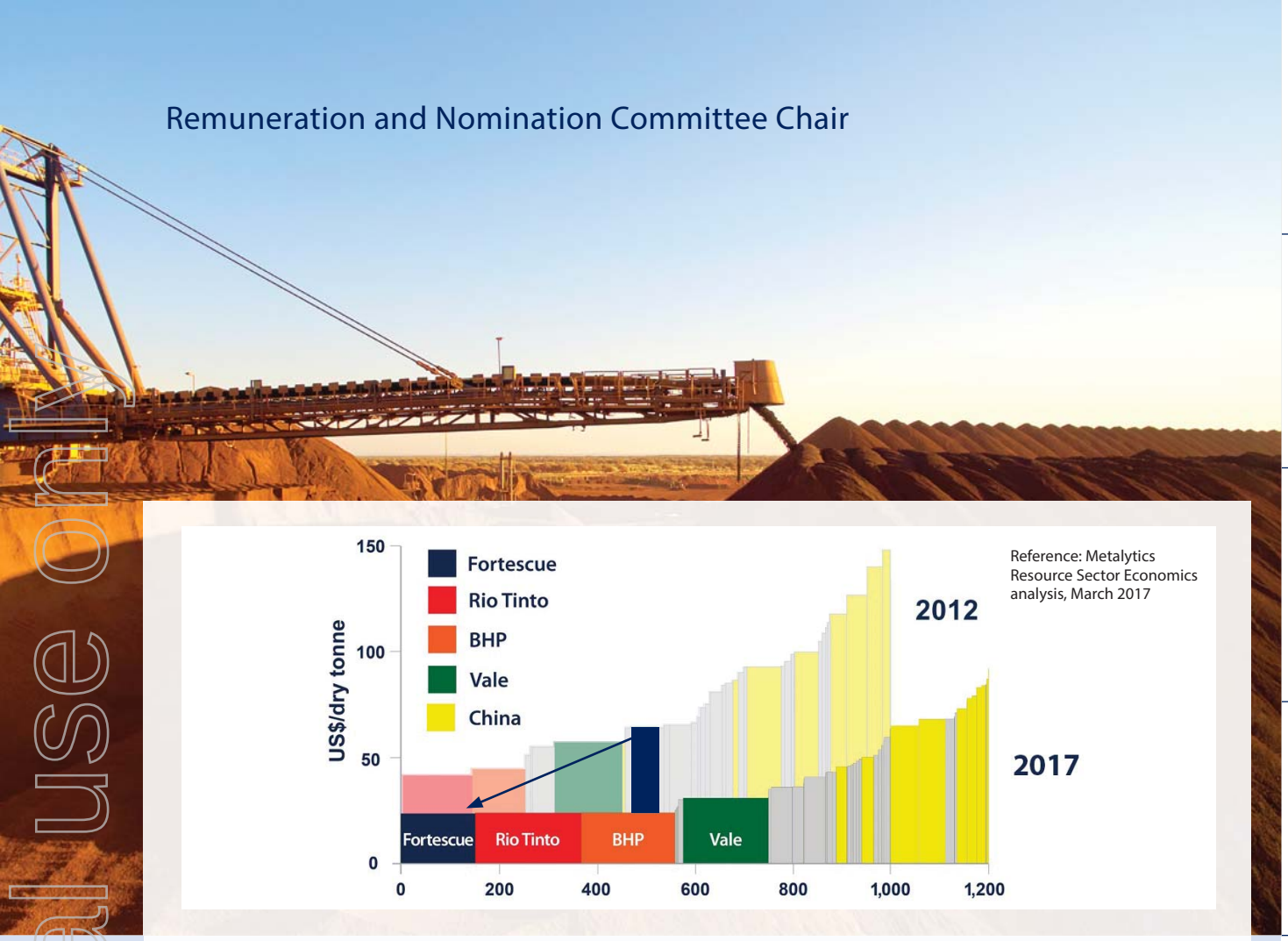
The Fortescue culture is unique, powerful and drives success.

FY17 Performance

The share price increased 49 per cent from the FY16 closing price of A$3.50 to A$5.22 at the end of FY17.

During FY17, Fortescue achieved exceptional results against all of its stretch targets, specifically:

- **Outstanding financial performance** including:
  - **92 per cent** increase in Return on Equity
  - **112 per cent** increase in Net Profit from US$985m to US$2,093m
  - **48 per cent** increase in EBITDA from US$3,195m to US$4,744m
  - **20 per cent** increase in revenue from iron ore operations from US$6,947m to US$8,335m
  - **Consistent production** from the Company's world class assets, with 170.4mt of iron ore shipped
  - **Substantial cost reductions** including a **17 per cent** reduction in C1 costs and a June 2017 monthly cost of production of **less than US$10/wmt** with Fortescue now the lowest cost provider of seaborne iron ore to China.
- **Significant improvement in safety performance** across all sites, a 33 per cent reduction in TRIFR.
- **Mine life** maintained at target production rate and quality.



Reference: Metalytics Resource Sector Economics analysis, March 2017

FY17 Remuneration Outcomes

The Board is committed to a Remuneration Framework that drives superior performance, attracts and appropriately rewards and retains high performing Executives, delivers shareholder value and encourages decision-making focused on the longer term.

For FY17:

- Fixed Remuneration levels were maintained and there was no annual salary increase in FY17
- FY17 Short Term Incentive stretch targets were all rewarded with Board discretion used only on the cost target. While the team's cost reductions were world class, they fell just short of the defined aggressive C1 stretch target set 12 months ago
- The Board has made the decision to award the C1 cost component for the Executive and Senior Staff Incentive Plan (ESSIP) on the basis of a 17 per cent annual reduction in C1 costs. This is an outstanding achievement. The Board also acknowledged the milestone recognition of Fortescue becoming the lowest cost provider of seaborne iron ore to China in November 2016, a position that has been maintained for the balance of FY17. A cost of production for the month of June 2017 of <US$10/wmt was also rewarded
- FY15 Long Term Incentive reached the end of its performance period. As the minimum Absolute Return on Equity (AROE) performance threshold of 20 per cent was not met, none of the FY15 Long Term Incentive Plan (LTIP) will vest.

Notwithstanding strong Company performance over the three year performance period, the ability to achieve the required performance target of the FY15 LTIP has been heavily influenced by the iron ore price. This anomaly highlights the inadequacy of a single performance measure for the Company where the non-controllable iron ore price has a material impact on shareholder value. The FY16 and FY17 LTIP performance periods remain open.

This is the last vesting year of the single measure LTIP. From next year long term performance will be assessed using three measures to ensure alignment of remuneration strategies throughout all parts of the iron ore cyclical market.

Our report is designed to provide you with clear information on our strategy to ensure that remuneration paid to Executives and Directors is aligned to deliver the best outcomes to you, our shareholder.

Fortescue continues to work towards its vision to be the world's safest, lowest cost, most profitable iron ore producer.



Sharon Warburton
Remuneration and Nomination Committee Chair

For personal use only

Contents

1 FY17 overview and year ahead

1.1 FY17 Remuneration outcomes – linking performance to pay 106

2 Remuneration governance

2.1. The Remuneration and Nomination Committee 108
2.2. Use of remuneration consultants 109
2.3. Clawback policy 109
2.4. Securities Trading policy 109
2.5. Minimum shareholding and holding conditions 109

3 Executive remuneration strategy

3.1. Remuneration policy 110
3.2. How remuneration practices align with Fortescue's reward strategy 110

4 Executive remuneration structure

4.1 Remuneration mix 111

5 Incentive plan operation and performance outcomes

5.1. Executive and Senior Staff Incentive Plan (ESSIP) 112
5.2. How ESSIP objectives and weightings are determined 112
5.3. How the ESSIP works: a general example 114
5.4. How Fortescue performed over the past five years 114
5.5. FY17 ESSIP performance outcomes 115
5.6. FY17 ESSIP awards 117
5.7. Long Term Incentive Plan (LTIP) 118
5.7.1. FY15 Long Term Incentive Plan 118
5.7.2. FY15 LTIP performance outcomes 119
5.7.3. FY15 LTIP awards 119
5.7.4. FY16 and FY17 LTIP operation 120
5.8. Salary Sacrifice Share Plan 123

6 How executive remuneration is reported

6.1. Actual remuneration paid in FY17 124
6.2. Statutory remuneration disclosure for executives 125
6.3. Details of performance grants to executive directors 127
6.4. Details of share based payments relating to LTIP 127

7 Executive contract terms 128

8 Non-Executive director remuneration

8.1. NED remuneration policy 129
8.2. NED fee pool 129

9 Equity instrument disclosures relating to key management personnel

9.1. Options and Share Rights 131
9.2. Share holdings (ordinary shares) 132

For personal use only



Remuneration Report

Who this report covers



This report outlines the remuneration arrangements for Fortescue's key management personnel (KMP). KMP are defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

Within this Remuneration Report reference to 'executive(s)' includes Executive Directors and other key management personnel. There have been no changes to Key Management Personnel after the reporting date.

The information provided in this Remuneration Report has been prepared in accordance with requirements under the *Corporations Act 2001* and Accounting Standards.

Further details in regard to Company Directors can be found in the Overview Section of the Annual Report.

Whilst the functional and reporting currency of Fortescue is US dollars, it is the Directors' view that presentation of remuneration information in Australian dollars provides a more accurate and fair reflection of the remuneration practices of Fortescue, as all Directors, Executives and Employees are remunerated in Australian dollars.

This report forms part of the Directors' Report and unless otherwise indicated the following sections have been audited in accordance with section 308 (3c) of the *Corporations Act 2001*.

The KMP of the Group for FY17

Non-Executive Directors

Current

A Forrest	Chairman
M Barnaba	Lead Independent Director
C Huiquan	Non-Executive Director
S Warburton	Non-Executive Director *(Appointed as Vice Chair 19 July 2017)*
J Baderschneider	Non-Executive Director
J Morris	Non-Executive Director *(Appointed 9 November 2016)*
P Bingham-Hall	Non-Executive Director *(Appointed 9 November 2016)*

Former

O Hegarty	Vice Chair *(Retired 5 December 2016)*
E Gaines	Non-Executive Director (*Commenced as CFO and Executive Director on 6 February 2017)*
G Raby	Non-Executive Director *(Retired 5 December 2016)*

Executive Directors

Current

N Power	Chief Executive Officer
E Gaines	Chief Financial Officer (*Commenced as CFO and Executive Director on 6 February 2017)*

Former

S Pearce	Chief Financial Officer *(Ceased employment 31 December 2016)*

Other key management personnel

Current

G Lilleyman	Director Operations (*Commenced employment 1 January 2017)*

Former

N Cernotta	Director Operations *(Ceased employment 31 January 2017)*

For personal use only

1 FY17 overview and year ahead

Fortescue's remuneration strategy seeks to build a performance oriented culture by attracting and retaining the best people to align with driving increased shareholder value.

Fortescue's Board and Remuneration and Nomination Committee (RNC) are committed to the continued review and refinement of the remuneration strategy to ensure it meets the changing needs of the organisation, maintains market competitiveness, and aligns to shareholder interests.

1.1 FY17 Remuneration outcomes - linking performance and pay

The Board takes into consideration both quantitative and qualitative assessments when deliberating on executive remuneration to ensure that reward outcomes reflect both Company and individual performance. The following explains how fixed and variable remuneration outcomes were driven by performance in FY17.

Total Fixed Remuneration (TFR)

Further details are provided on page 128

Delivery

Cash, superannuation and optional salary sacrifice benefits.

Performance measures

An individual's TFR is a fixed/guaranteed element of remuneration.

Outcomes

- In consideration of fixed remuneration levels and business climate, there was no annual salary increase across the Company in FY17
- TFR for the CEO and executives is benchmarked against companies in the ASX 100 Resources Index
- CEO and CFO TFR is also benchmarked against the ASX 30, ASX 50 Indices as well as global listed resources companies.

Short Term Incentive Plan - Executive and Senior Staff Incentive Plan (ESSIP)

Further details are provided on page 112

Delivery

A minimum of 50 per cent of the incentive value (up to 100 per cent on election) is granted in share rights with the balance in cash.

Share rights are granted based on the share price at the beginning of the performance period with value realised at the time of award at the end of the performance period.

Movement in share price over the performance period directly affects the value received ensuring full alignment with returns to shareholders over the performance period.

In FY17, the Board introduced an additional stretch objective designed to drive outperformance against the FY17 budgeted cost of production stretch target (FY17 ESSIP Additional Stretch Objective).

100 per cent of the awards in respect of the FY17 ESSIP Additional Stretch Objective are payable in cash.

The FY17 ESSIP Additional Stretch Objective is for the FY17 year only. It is not applicable to future years.

For personal use only

For personal use only

1 FY17 overview and year ahead (continued)

1.1 FY17 Remuneration outcomes - linking performance and pay (continued)

Short Term Incentive Plan - Executive and Senior Staff Incentive Plan (ESSIP) (continued)

Further details are provided on page 112

Performance measures

A balanced scorecard of performance measures including financial and non-financial measures, all of which are fundamental to value creation for a resources company. Financial measures represent the key drivers of financial performance.

Targets are set at stretch levels of performance with each target either met (resulting in 100 per cent of maximum opportunity) or not met (resulting in no payment).

The Board may exercise its discretion to vary the level of award (positive or negative) when considering overall shareholder value generated over the performance period. The Board will consider overall company performance including the degree of stretch in the measures, operating environment, level of improvement on the prior year and performance versus global competitors.

CEO Performance

- Measured on Company Annual plus Growth Targets

Other KMP Performance

- As per the CEO plus an additional four to five Personal KPIs aligned to business plan and set at stretch levels of performance

Company Financial Targets

- AROE
- Production
- Cost

Company Growth Targets

- Safety
- Mine Life
- Culture and engagement

Additional Stretch Objective

- Outperformance of June 2017 cost of production stretch target

Outcomes

During FY17, the Company has achieved outstanding results against all stretch targets (including outperformance of the Cost of Production stretch target in respect of the FY17 ESSIP Additional Stretch Objective). The specific C1 cost stretch target of US$12.16 per tonne was a 21 per cent reduction on the FY16 outcome of US$15.43.

The aggressive C1 stretch target was almost achieved with C1 costs reduced by 17 per cent.

On the basis of overall performance against all other FY17 stretch targets, the Board has exercised its discretion to award the C1 cost component for the ESSIP based on the 17 per cent reduction in C1 costs achieved and becoming the lowest cost provider of seaborne iron ore to China in FY17.

The June 2017 cost of production was US$9.20/wmt against a stretch target of <US$10/wmt.The outcome represents an average payment of 96 per cent of maximum opportunity compared with an average payment of 104 per cent of maximum opportunity in FY16 Refer to section 5 for further detail.

Long Term Incentive Plan (LTIP)

Further details are provided on page 118

Delivery

- Share rights are granted based on the share price at the beginning of the performance period with value realised at the time of award at the end of the performance period
- Movement in share price over the performance period directly affects the value received ensuring strong correlation with returns to shareholders over the course of the same period.

Performance measures

FY15 LTIP for the period 1 July 2014 to 30 June 2017:

- Measured solely against single financial AROE Targets.

FY16 and FY17 LTIP measured against:

- AROE (33 per cent)
- Relative TSR (33 per cent)
- Strategic Measures (34 per cent).

Outcomes

FY15 LTIP

Threshold AROE performance of 20 per cent was not met and no share rights vested under this plan. Notwithstanding strong Company performance over the three year performance period, the ability to achieve the required performance target of the FY15 LTIP has been heavily influenced by the iron ore price.

This anomaly highlights the inadequacy of a single performance measure for the company where the non-controllable iron ore price has a material impact on shareholder value.

The FY16 and FY17 LTIP performance periods remain open.

For personal use only

2 Remuneration Governance

Fortescue believes that robust governance is critical to underpinning the effectiveness of the remuneration strategy.

2.1 The Remuneration and Nomination Committee

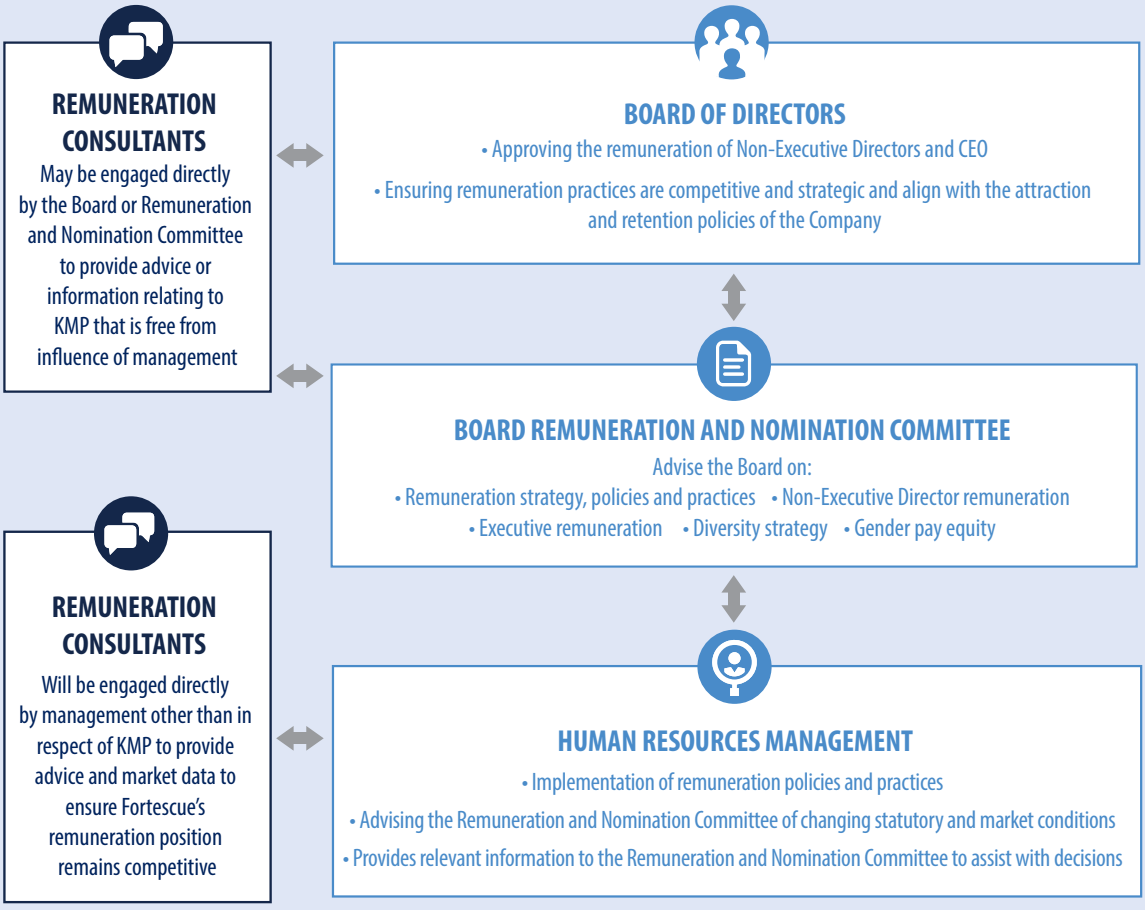
The Remuneration and Nomination Committee (RNC) operates under a Board-approved Charter. The purpose of the RNC is to provide assistance and recommendations to the Board to ensure that it is able to fulfil its responsibilities relating to the following:

- Remuneration strategy
- Non-Executive Director remuneration
- Chief Executive Officer and Executive Director remuneration
- Senior executive remuneration
- Short term and long term incentive plans
- CEO recruitment
- Annual performance review of the CEO
- Succession planning and talent management
- Diversity strategy
- Gender pay equity
- Matters relating to the Company's recruitment, retention and termination policies
- Nomination and review of applicants for Board Director positions
- Committee member appointments.

A copy of the Charter is available under the Corporate Governance section at www.fmgl.com.au

The RNC in FY17 consisted solely of Non-Executive Directors. The Chief Executive Officer and others may be invited to attend all or part of meetings by the Committee Chair as required, but have no vote on matters before the Committee.

The process and accountabilities in determining remuneration are shown below.



2 Remuneration Governance (continued)

2.2 Use of remuneration consultants

The Committee has the resources and authority appropriate to perform its duties and responsibilities, including the authority to engage external professionals on terms it deems appropriate.

During the year ended 30 June 2017, the Committee retained Egan Associates and PwC in relation to the review of policies and practices and the provision of general information on market trends. This did not incorporate providing the Committee with any remuneration recommendations as defined by the *Corporations Act 2001*.

2.3 Clawback Policy

Fortescue operates a Clawback Policy. Clawback will be initiated where in the opinion of the Board:

1) An Award, which would not have otherwise vested, vests or may vest as a result directly or indirectly of:

   a) the fraud, dishonesty or breach of obligations (including, without limitation, a material misstatement of financial information) of any person or

   b) any other action or omission (whether intentional or inadvertent) of any person, the Board may make a determination to ensure that no unfair benefit is obtained by any Participant or

2) An Award, which may otherwise have vested, has not vested as a result directly or indirectly of any circumstance referred to in paragraphs 1) a) or b) above, the Board may reconsider the level of satisfaction of the applicable Conditions and reinstate and vest any Award that may have lapsed to the extent that the Board determines appropriate in the circumstances.

2.4 Securities Trading Policy

Fortescue's Securities Trading Policy provides clear guidance on how Company securities may be dealt with.

The Securities Trading Policy details acceptable and unacceptable periods for trading in Company Securities including detailing potential civil and criminal penalties for misuse of confidential information.

Fortescue's Securities Trading Policy provides guidance on acceptable transactions in dealing in the Company's various securities, including shares, debt notes and options.

The policy also sets out a specific governance approach for how the Chairman and Directors can deal in Company Securities. The Company's Securities Trading Policy can be accessed from the Corporate Governance section at www.fmgl.com.au

2.5 Minimum shareholding and holding conditions

All Directors and employees are encouraged to own Fortescue shares and the Company enables employee participation as a shareholder through short and long term incentives, salary sacrifice and dividend reinvestment programs.

Fortescue does not have a formal minimum shareholding policy or mandatory holding condition on awarded shares however it is important to note for executives:

- A minimum of 79 per cent of the 'at risk' component of Executive remuneration is granted in share rights
- The number of share rights granted is based on the face value share price at the commencement of the performance period motivating executives to hold shares and grow shareholder value
- The combined number of share rights granted and shares awarded exceeds TFR
- All Fortescue incentives (both short and long term) offered from FY16 onwards are awarded as vested rights. Participants have up to 15 years to exercise their vested rights into shares and income tax is deferred until exercise.

For personal use only

For personal use only

3 Executive remuneration strategy

Fortescue's reward strategy seeks to build a performance oriented culture that supports the achievement of the Company's strategic vision and to attract, retain and motivate employees by providing market competitive fixed remuneration and incentives.

The reward strategy also supports Fortescue's growth and progression as one of the world's leading producers of iron ore through:

- Being well positioned to deliver fair and market competitive rewards
- Supporting a clear performance focus and acknowledging global industry outperformance
- Alignment to the long term goals of the Company.

3.1 Remuneration Policy

Fortescue is committed to providing competitive remuneration packages to its executives and senior employees. Fortescue benchmarks remuneration components against major indices such as the ASX 30, ASX 50 and ASX 100 Resources Indices as well as comparable roles in global peer group companies.

The Board acknowledges that market conditions (including material conditions outside the control of the Company), share price and market capitalisation may change the Company's relative comparator group from time to time.

The Board, however, has a long term strategy to ensure that executive remuneration is appropriately positioned to motivate, attract and retain key executives and senior employees through the commodity cycles to deliver on the current and long term strategic activities of the Company. Rewarding and retaining executives throughout the commodity cycle is critical to long term shareholder value.

In FY16 Fortescue was ranked number 32 on the ASX 100 by market capitalisation and improved to number 22 at 30 June 2017.

Information may also be sought from independent remuneration consultants regarding Executive remuneration as and when required as detailed in section 2.2.

3.2 How remuneration practices align with Fortescue's reward strategy

Remuneration strategy principle	Policy	Practice
High levels of share ownership	Drive alignment of employee and shareholder interests	A minimum 50 per cent of the ESSIP paid in shares with executives able to elect up to 100 per cent in shares. LTIP awarded as shares
Market competitive remuneration	Attract and retain key talent and be competitive against relevant companies	Remuneration is benchmarked against the ASX 100 Resources Index and other relevant indices
Performance focus	Provide fair reward in line with individual and company achievements	Executive remuneration mix targets a minimum of 64 per cent of the total opportunity 'at risk'
Fit for purpose	Include flexibility to reflect clear linkage to business strategy	Business strategy is prioritised; market practice is only one input in determining the relevant framework
Strategic alignment	Support delivery of long term business strategy and growth aspirations	Incentives are measured on strategic growth performance being a combination of financial and non-financial measures to support sustainable growth
Shareholder and executive alignment	LTIP rewarding sustained performance over a three year period	A significant portion of executive remuneration granted as performance rights vesting subject to short and long term performance hurdles

For personal use only

4 Executive remuneration structure

Executive remuneration has a fixed component and variable 'at risk' components, the payment of which is dependent on the achievement of Company performance and growth targets and individual objectives.

The key components of the executive remuneration structure comprise:

- TFR
- ESSIP
- LTIP.

Remuneration may also include participation in the Salary Sacrifice Share Plan (SSSP).

Total remuneration comprising each of these components is benchmarked against the market taking into account the Company's position as the world's fourth largest iron ore producer and its ranking on the Australian Securities Exchange. Fixed Remuneration is benchmarked against the market median (50th percentile) with the ability to earn third quartile (75th percentile) or above total remuneration for outstanding performance against stretch targets.

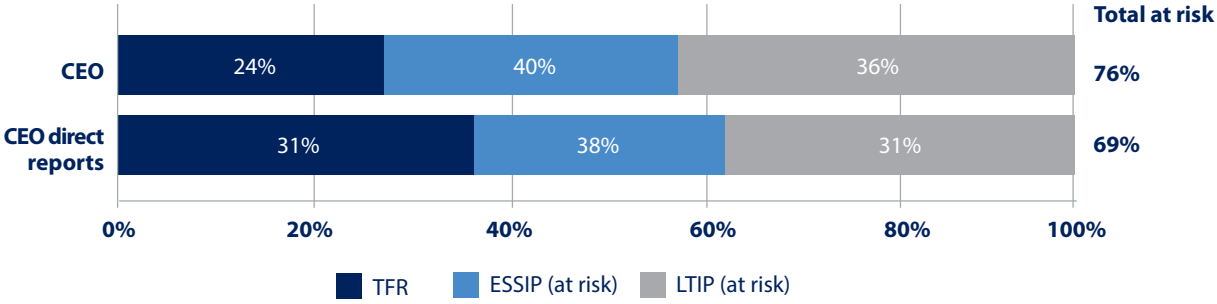
Remuneration is benchmarked against companies in both the ASX 100 Resources Index, ASX 30, ASX 50 and comparable roles in global peer group companies.

The number of share rights granted under both ESSIP (which generally account for a minimum of half the incentive) and LTIP (which is granted solely in share rights) are determined based on the face value share price at the start of the relevant performance period. This means that the movement in share price over the performance period directly affects the value received by executives and ensures full alignment with returns to shareholders over the course of the same period.

The remuneration mix (shown in the section below) clearly illustrates the significant proportion of 'at risk' components of executive remuneration and reinforces the pay for performance policy alignment adopted by the Board. Further, a minimum 79 per cent (up to a maximum of 100 per cent) of the total 'at risk' component is offered in the form of share rights and subject to share price movement fully aligned with shareholders calculated based on the face value share price at the commencement of the performance year. This means that over three quarters of the value to the individual of the combined ESSIP and LTIP is tied directly to the share price at the time of award ensuring that executive reward is aligned to shareholder value.

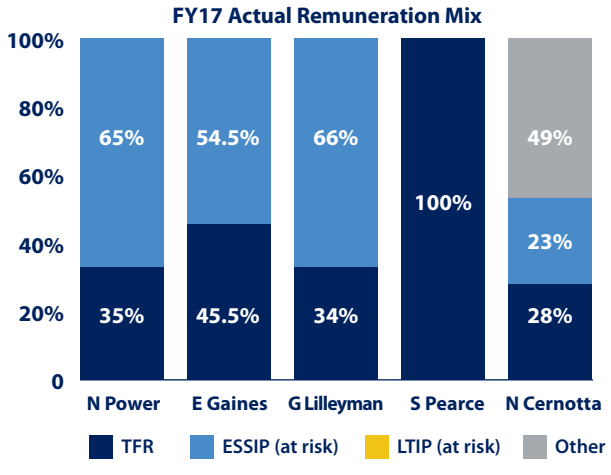
4.1 Remuneration mix

The table below shows the remuneration mix for superior performance when stretch hurdles have been met for both the CEO and his direct reports in FY17:



The chart below represents the actual remuneration mix for KMP in 2017:

- The value of the Short Term Incentive (STI) reflects the share price growth of the equity component from A$3.759 to A$5.2591 over the performance period
- Mr Pearce did not participate in the STI due to the timing of his cessation of employment
- Mr Cernotta's STI reflects the pro-rata accrued benefit up to the date he ceased employment
- Other relates to Mr Cernotta's ex-gratia termination payment
- The FY15 LTIP did not meet the minimum performance threshold and no awards were made under this plan.



The non-IFRS information included in the graph above has not been subject to audit.

5 Incentive plan operation and performance

5.1 ESSIP

The purpose of the ESSIP is to incentivise and reward key Fortescue executives (including KMP) for achieving Company and individual performance objectives that drive shareholder value.

The CEO's ESSIP potential award is linked solely to Company objectives with executive's ESSIP potential award linked 60 per cent to Company objectives, and 40 per cent to individual performance, aligning CEO and executive remuneration with Company performance during the plan year.

The maximum ESSIP opportunity is established at the beginning of the financial year for each executive. Generally, the ESSIP is delivered as a minimum of 50 per cent in ordinary shares, and a maximum of 50 per cent in cash. The plan allows participants to elect to receive up to 100 per cent of the ESSIP in shares. Share rights are granted based on the election made by the participant and represent the maximum number of shares that may be awarded subject to performance.

ESSIP share rights are calculated based on the volume weighted average price (VWAP) of Fortescue shares traded over the first five trading days of the performance period (e.g. 1 July 2016 to 7 July 2016).

The maximum incentive opportunity for KMPs in FY17 is shown below.

Maximum General ESSIP opportunity

Chief Executive Officer	
112.5 per cent of TFR*	1 participant
CEO direct reports	
75 per cent of TFR*	3 participants

* Note that the actual award outcomes under the ESSIP will be determined by the number of objectives achieved and the value of the Fortescue shares at time of vesting.

In addition to those awards that are generally granted under the ESSIP, the Board has the ability to introduce additional awards that are aligned with and support the Company's business strategy. Additional awards may be comprised of cash, shares or a combination of both and are granted at the discretion of the Board.

In FY17, the Board introduced the FY17 ESSIP Additional Stretch Objective, an additional stretch target designed to drive outperformance against the FY17 budgeted June 2017 month cost of production stretch target. Cost of production is a significant driver of profitability given the inability to influence iron ore pricing and even more critical in a declining iron ore price environment.

The value of awards made in respect of the FY17 ESSIP additional stretch objective reflect the individual's ability to influence the cost reductions required to achieve this target and represent an outperformance payment under the FY17 ESSIP. 100 per cent of the awards in respect of the FY17 ESSIP additional stretch objective are payable in cash.

Maximum FY17 ESSIP Additional Stretch Objective Opportunity

Chief Executive Officer	
50 per cent of TFR	1 participant
CEO direct reports	
50 per cent of TFR	2 participants

Unless the Board exercises its discretion otherwise in accordance with the ESSIP plan rules, for individuals who leave during the year (i.e. before 30 June), the ESSIP is pro-rated based on service during the period, and made at the usual payment date, which is around September of each year, post release of audited and approved full year results.

Individuals who commence during the year similarly will have awards under the general ESSIP pro-rated based on service during the performance period.

5.2 How ESSIP objectives and weightings are determined

Generally, ESSIP targets and measures are set on an annual basis and are linked to the annual stretch budget and Fortescue's strategic plan focusing on core drivers of shareholder value result in well balanced financial and non-financial targets.

Personal objectives are set at stretch levels of performance with measures and weightings aligned to the individual's ability to influence outcomes and ensure focus on critical deliverables.

The following charts show the relationship between the primary ESSIP performance measures for the CEO and other KMP:

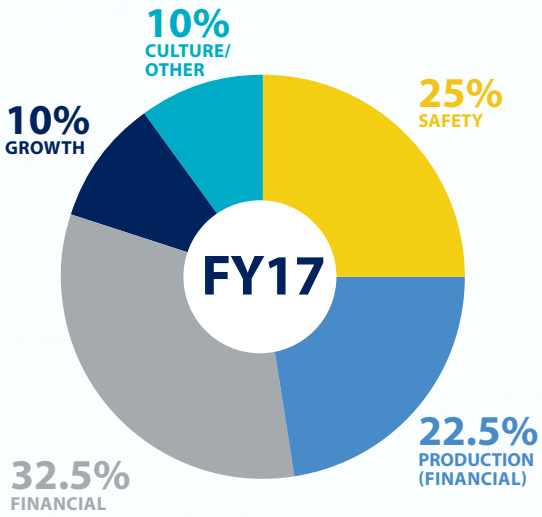
- The CEO has 55 per cent financial and 45 per cent non-financial targets
- Financial and non-financial targets are aligned specifically to the executive's respective roles and responsibilities and financial targets range from 53 per cent to 65 per cent
- **Financial includes** cost, production, AROE and balance sheet management measures
- **Non-Financial includes** safety, growth, culture and community measures.

For personal use only

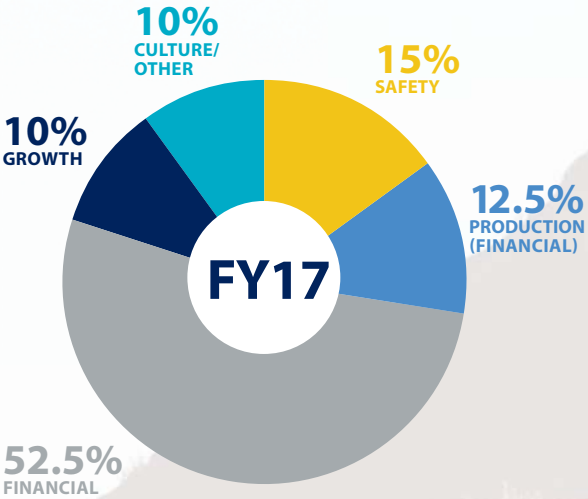
5 Incentive plan operation and performance (continued)

5.2 How ESSIP objectives and weightings are determined (continued)

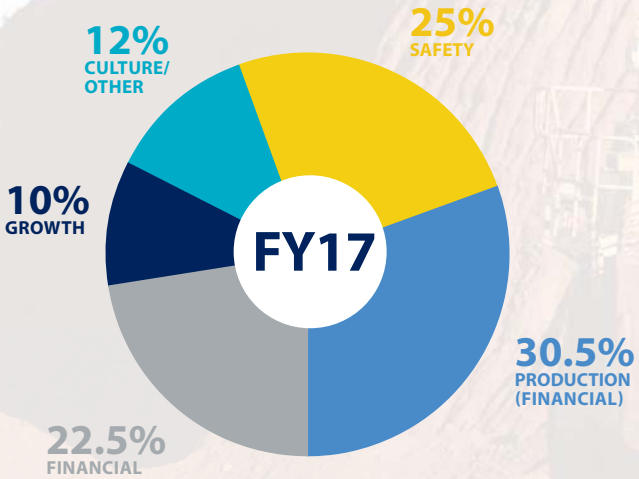
Chief Executive Officer



Chief Financial Officer



Director Operations



For personal use only

5 Incentive plan operation and performance (continued)

5.3 How the ESSIP works: a general example

ESSIP participant rewards are designed to reflect Company performance and provide alignment with shareholder outcomes by generally linking a minimum of half the ESSIP to share price movement over the financial year.

Example:
The example below assumes that Executive A has an incentive opportunity of $100,000 and has elected to take 70 per cent of the incentive in shares.

Details of offer	
Nominal Value of full award	**$100,000**
VWAP at start of FY17 (1 to 7 July 2016)	**$3.759**
Participant Share Weighting	**70%**
Potential award	
Cash (30 per cent of opportunity)	**$30,000**
Nominal value of share rights (70 per cent)	**$70,000**
Share Rights (70 per cent of opportunity) (ie $70,000 ÷ $3.759)	**18,622**
Example outcome	
Percentage of incentive opportunity achieved (company and personal performance)	**80%**
Cash paid (80% of cash component)	**$24,000**
Shares Awarded (80% of share rights convert to ordinary shares)	**14,898**

The number of share rights granted in respect to the FY17 ESSIP is determined based on the VWAP at the start of the performance period which was A$3.759:

- If the share price at the time of award is higher, executives will receive higher value per share right
- If the share price at the time of award is lower, the value to executives is decreased.

The value of share rights is therefore aligned with shareholder interests as executives receive value consistent with share price movements. Value is not realised until the vested rights are exercised into shares and then sold.

As noted above, in FY17 the Board introduced the FY17 ESSIP additional stretch objective. The value of awards made in respect to this measure reflect the individual's ability to influence the cost reductions required to achieve this target and represent an outperformance payment under the FY17 ESSIP. 100 per cent of the awards granted in respect of the FY17 ESSIP additional stretch objective are payable in cash.

5.4 How Fortescue performed over the past five years

Fortescue continues to build on its performance over the past five years, showing strong performance in safety, culture, production and costs to deliver shareholder value. In considering Fortescue's performance and benefits for shareholder value, the Board has regard to the following indices in respect of the current financial year and the previous four financial years.

Over the performance period the share price increased by 49 per cent (opening share price A$3.50 versus closing share price A$5.22) and total shareholder return for one year was 57.46 per cent including (A$0.32 cents dividend). This ranked Fortescue number three, relative to other constituents of the ASX 100 Resources Index.

	2017	2016	2015	2014	2013
Total tonnes shipped (wmt)	170.4	169.4	165.4	124.2	80.9
Revenue from iron ore operations - US$millon	8,335	6,947	8,390	11,611	8,057
EBITDA – US$million	4,744	3,195	2,506	5,636	3,575
Net profit US$million	2,093	985	316	2,740	1,746
Return on equity %	23	12	4	43	39
Gearing (Book value of debt/debt + equity)	31	45	56	56	71
Dividends paid A$ per share	0.32	0.05	0.13	0.2	0.04
Share price A$	5.22	3.50	1.91	4.35	3.04
Change in share price A$	1.72	1.59	(2.44)	1.31	(1.81)
Change in share price %	49	83	(56)	43	(37)

The non-IFRS information included in the table above has not been subject to audit.

For personal use only

5 Incentive plan operation and performance (continued)

5.5 FY17 ESSIP performance outcomes

ESSIP awards are based on an assessment of Company and individual performance. Company performance comprises company financial and non-financial based measures designed to drive both a short and long term perspective on performance, and protect the long term interests of shareholders by seeking to ensure efficient processing of reserves mined and that financial objectives are met.

Performance objectives are set by the Fortescue Board in line with the annual business planning and budgeting process and are established in line with a culture of stretch targets. The weighting for each target is reviewed annually and may vary from year to year to reflect its criticality, effort to achieve and impact on the business.

In FY17, financial targets account for 55 per cent of the Company (and CEO) performance objectives with non-financial targets accounting for the remaining 45 per cent. The mix of financial and non-financial objectives for other executives varies and are specific to their roles and responsibilities.

The financial performance measures were chosen as they represent the key drivers of financial performance of the Company and provide a framework for delivering long term shareholder value, irrespective of the iron ore price. The non-financial component of the ESSIP is measured with reference to an assessment against a range of measures. A majority of the non-financial measures are quantitative-based.

A key element of Fortescue's culture is to set challenging stretch targets and strive to outperform those targets. When deliberating on performance outcomes, the Board follows a rigorous assessment process when considering performance outcomes including:

- The degree of stretch in the measures and targets and the context in which the targets were set
- The level of achievement against the stretch targets
- The operating environment over the performance period and management's ability to respond to unforeseen events
- Financial performance and shareholder value generated
- Global competitiveness and level of improvement compared to global peers during the period
- The level of improvement across key business drivers on the prior year
- Any other relevant under or over performance or other criteria not stated above.

In circumstances where performance against stretch targets is not accurately reflected in the level of achievement against stretch targets (whether under or over), the Board may exercise its discretion to increase or decrease the vesting level of the incentive and therefore the value awarded.

In FY17, the Board set a number of key targets in respect of cost reduction across all operating and support functions and challenging production targets.

The Board determined the relative weighting and mix of performance objectives for the CEO and executives in order to deliver long term sustainable shareholder value.

For personal use only

5 Incentive plan operation and performance (continued)

5.5 FY17 ESSIP performance outcomes (continued)

The ESSIP performance objectives in 2017 are shown below:

FY17 Short Term Incentive Outcomes				
	Weighting (% of STI)			
Objective and measurement	CEO	Exec-utives	Result	Achievement
Company financial performance				
Financial • AROE **> 15%**	10	10	23	Continued focus on cost reduction, innovation, technology and process efficiency have had a positive impact on profitability and return on equity with an 92% increase to AROE compared to FY16.
Production • Tonnes Shipped **≥ 170 million wmt**	22.5	12.5	170.4	Full year production target marginally exceeded with 170.4 million wmt iron ore shipped in FY17 notwithstanding very challenging weather conditions during Q3.
C1 Cost • C1 cost **≤ US$12.16/wmt**	22.5	12.5	12.82	Although the C1 cost stretch target was not met the outcome represents a 17% reduction in C1 costs over the FY17 performance year contributing to an overall 73% reduction in C1 costs since 2012. In light of the substantial cost savings delivered in FY17 and overall company performance, the Board has determined that this performance measure has been met.
Company growth performance				
Safety [1] • TRIFR **< 3.9**	25	15	2.9	Keeping people safe is Fortescue's highest priority and in FY17 Fortescue achieved outstanding results achieving a 33% reduction in TRIFR from 4.3 to 2.9.
Physical • Target tonnes and quality achieved whilst maintaining mine life	10	10	Met	FY17 target production rate of 170mtpa, design strip ratio and production specifications have been achieved whilst maintaining the mine life for each site.
Culture • Safety Survey participation rate **≥75%** • Voluntary Turnover Rate **≤10%**	10	Included in personal KPIs	92 7	Safety survey participation rate of 92% exceeded target which is an exceptional result for a global miner. Positive impact on employee retention which saw a reduction in voluntary turnover to 7%.
Personal objectives				
Personal Objectives • 4 to 5 Personal Objectives set at Stretch Levels of performance against the FY17 Business Plan	n/a	40	Partially met	Personal objectives are assessed by the CEO and recommended outcomes approved by the Board.
Cost of production stretch opportunity				
• COP of <US$10/wmt for the month June 2017	50% of TFR		US$9.20	Cost of production of US$9.20 (after June one-off adjustments) achieved.

[1] In the event of a fatality no award is made for the Safety KPI.

In FY17, the Board also introduced the FY17 ESSIP Additional Stretch Objective, designed to drive outperformance against the FY17 budgeted cost of production stretch target.

The non-IFRS information included in the table above has not been subject to audit. In FY17, the CEO was measured solely against Company performance and Cost of Production Stretch Opportunity outcomes thereby ensuring the alignment between Company performance, shareholder value and CEO reward for the performance year. Payment of ESSIP awards are made in September 2017 after the release of the Company's audited full year results and with final approval from the Board. Further details in regard to the Company's full year results are set out in the Director's Report on page 50 to 52.

For personal use only

5 Incentive plan operation and performance (continued)

5.6 FY17 ESSIP awards

Share rights granted under the ESSIP at the beginning of FY17 are shown below. All share rights vest if all ESSIP objectives are met. ESSIP share rights reflect the face value share price at the commencement of the performance year when share rights are granted. The ultimate value of these share rights to the Executives will reflect either an improvement or decline in the Company's share price over the performance period. The adoption of this approach is specifically to ensure that awards made to executives have a value which reflects sustainable value of shareholder's investment in the Company.

Over the performance period the share price increased by 49 per cent and total shareholder return for one year was 57 per cent. The ESSIP has awarded on average 96 per cent of maximum opportunity to executives.

The last column in the table below details the actual number of share rights that vested based on actual performance:

Executive	ESSIP share rights granted	ESSIP share rights lapsed	ESSIP share rights forfeited	ESSIP share rights vested
N Power	299,282	-	-	299,282
E Gaines[1]	-	-	-	-
S Pearce[2]	-	-	-	-
G Lilleyman[3]	99,761	(7,981)	-	91,780
N Cernotta[4]	94,773	-	(94,773)	-

Unvested share rights lapse once the total at risk outcome of the ESSIP is determined.

[1] Ms Gaines is eligible to participate in the FY17 ESSIP on a pro-rata basis, however no share rights have been granted as the grant of the share rights is subject to shareholder approval which will be sought at the AGM in November 2017.

[2] Mr Pearce did not participate in the FY17 ESSIP due to the timing of his resignation.

[3] Mr Lilleyman participated in the ESSIP on a pro-rata basis aligned to his commencement date of 1 January 2017.

[4] Mr Cernotta's ESSIP share rights were forfeited on cessation of employment on 31 January 2017. Mr Cernotta's ESSIP share rights accrued entitlement up to cessation of employment was paid in cash (see section 6).

The table on the following page details the maximum ESSIP cash and share awards against the actual outcomes for FY17. The share components are based on the share weighting election of each executive.

- Ms Gaines' ESSIP cash award reflects the cash payment in respect of the FY17 ESSIP additional stretch objective. No share rights have been granted as the grant of the share rights is subject to shareholder approval which will be sought at the AGM in November 2017
- Mr Lilleyman's ESSIP participation is on a pro-rata basis from date of commencement
- Mr Cernotta's ESSIP participation is on a pro-rata basis and represents his accrued entitlement up to the cessation of employment which was paid in cash
- The actual share value to the individual is not realised until vested rights are exercised by the participant. For the purpose of this report the nominal ESSIP value of vested rights is shown:
    - o Based on the share price at grant (A$3.759)
    - o Based on the share price at vesting (A$5.2591)

demonstrating the alignment between Company performance, Executive reward and Shareholder value.

For personal use only

5 Incentive plan operation and performance (continued)

5.6 FY17 ESSIP awards (continued)

2017 A$	TFR	Maximum ESSIP opportunity (% of TFR)	Weighting in shares (per cent)	Maximum ESSIP cash opportunity	Maximum ESSIP shares opportunity - value at grant[1]	ESSIP outcome	Maximum FY17 ESSIP additional stretch objective opportunity (% of TFR)	ESSIP additional stretch objective outcome	ESSIP cash awarded	Nominal value of ESSIP vested rights	
										Share price at grant $3.759[1]	Share price at vesting $5.259[2]
Executive Directors											
N Power	2,000,000	112.5	50	1,125,000	1,125,000	100%	50	100%	2,125,000	1,125,000	1,573,954
E Gaines[3]	1,102,500	75	100	-	-	-	50	100%	551,250	-	-
S Pearce[4]	1,102,500	75	-	-	-	-	-	-	-	-	-
Executives											
G Lilleyman[5]	1,000,000	75	100	-	375,000	92%	50	100%	500,000	345,001	482,680
N Cernotta[6]	950,000	75	50	356,250	356,250	90%	-	-	448,702[7]	-	-

[1] Based on the strike price at grant being the VWAP of Fortescue shares traded over the first five trading days of the FY17 Plan year ($3.759).

[2] Based on the nominal value at vesting being the VWAP of Fortescue shares traded over the first five trading days of FY18 ($5.2591).

[3] Ms Gaines commenced as CFO and Executive Director on 6 February 2017.

[4] Mr Pearce ceased employment on 31 December 2016.

[5] Mr Lilleyman commenced employment on 1 January 2017.

[6] Mr Cernotta ceased employment on 31 January 2017.

[7] Representing Mr Cernotta's accrued entitlement under the ESSIP (both the Cash opportunity and ESSIP share rights opportunity), which was paid in cash.

5.7 Long Term Incentive Plan

The LTIP is granted in the form of share rights at the commencement of the three year performance period with awards vesting subject to the achievement of the specified performance conditions. The three year performance period, performance measures and date of assessment and award for each of the LTIPs are as follows:

Plan	Performance Period	Performance Measure	Assessment and Award
FY15 LTIP	1 July 2014 to 30 June 2017	AROE	September 2017
FY16 LTIP	1 July 2015 to 30 June 2018	AROE, TSR and strategic measures	September 2018
FY17 LTIP	1 July 2016 to 30 June 2019	AROE, TSR and strategic measures	September 2019

5.7.1 FY15 Long Term Incentive Plan

FY15 LTIP awards to Executives are made under the Performance Share Plan Rules and are granted initially in the form of share rights. Each share right entitles the holder (subject to achievement of the specified performance conditions) to one fully paid ordinary share in the Company for nil consideration.

The Company used absolute return on equity (AROE) as the sole performance measure for the FY15 LTIP assessed over the three year performance period.

AROE was selected in 2015 as the performance measure for the FY15 LTIP for the following reasons:

- AROE is one of the most important value metrics reflecting profit earned relative to shareholders equity (the amount of capital invested by shareholders)
- AROE performance in excess of the Company's cost of equity capital will deliver shareholder value

Consistent with the ESSIP, the LTIP is designed to provide alignment with shareholder outcomes by linking the value of the LTIP to share price movement over the performance period.

A minimum 20 per cent annual AROE hurdle rate was selected for the FY15 LTIP for the following reasons:

- 20 per cent exceeded the Company's cost of equity at that time
- The average AROE for the ASX 100 Resources Index from 2010 to 2014 was 9.2 per cent
- The 80th percentile AROE for the ASX 100 Resources Index from 2010 to 2014 was 15.6 per cent
- 20 per cent was considered a challenging stretch target, a core theme of Fortescue's culture.

For personal use only

5 Incentive plan operation and performance (continued)

5.7.1 FY15 Long Term Incentive Plan (continued)

The vesting schedule is as follows:

Average AROE

Performance	FY15	Vesting
Below threshold	<20%	Nil
Threshold	20%	25 per cent of share rights vest
Target	30+%	100 per cent of share rights vest

Vesting between threshold and target is calculated linearly

The performance period for the FY15 LTIP was from 1 July 2014 to 30 June 2017. Share rights convert to shares at the end of the three year performance period subject to performance against the AROE performance measure. The average AROE over three years is measured as the sum of AROE for years one, two and three divided by three. Average AROE less than threshold performance will result in no award.

In the event of a change of control of the Company, the performance period end date will generally be brought forward to the date of the change of control and awards will vest over this shortened period, subject to ultimate Board discretion. The Clawback Policy also applies to this plan.

5.7.2 FY15 LTIP performance outcomes

The AROE average for the three year performance period did not meet the 20 per cent minimum threshold (as shown in the table below) and accordingly no share rights vested under this plan.

FY15 LTIP performance outcomes

Year ending	ROE performance (%)
30 June 2015	4
30 June 2016	12
30 June 2017	23
Average ROE	**13**
Vesting level	**Nil**

5.7.3 FY15 LTIP awards

Share rights granted under the LTIP at the beginning of FY15 are shown below. No share rights vested under this plan and were either forfeited on cessation of employment or lapsed.

- Unvested share rights lapse once the outcome of the LTIP is determined
- Ms Gaines commenced as CFO and Executive Director on 6 February 2017 and Mr Lilleyman commenced employment on 1 January 2017 and accordingly, did not participate in the FY15 LTIP
- Mr Cernotta's and Mr Pearce's share rights were forfeited on cessation of employment.

FY15 LTIP

Executive	LTIP share rights issued	LTIP share rights lapsed	LTIP share rights forfeited	LTIP share rights vested
N Power	660,837	(660,837)	-	-
E Gaines	-	-	-	-
S Pearce	242,858	-	(242,858)	-
G Lilleyman	-	-	-	-
N Cernotta	209,265	-	(209,265)	-

For personal use only

5 Incentive plan operation and performance (continued)

5.7.4 FY16 and FY17 LTIP operation

The performance period for the FY16 LTIP is from 1 July 2015 to 30 June 2018 and the performance period for the FY17 LTIP is from 1 July 2016 to 30 June 2019. The FY16 and FY17 LTIP plans operate under the performance rights plan rules as approved by Shareholders at the Company's Annual General Meeting on 11 November 2015 and are granted in the form of share rights. Each share right entitles the holder (subject to achievement of the specified performance conditions) to one fully paid ordinary share in the Company for nil consideration.

The FY16 and FY17 LTIP is assessed against multiple performance measures weighted as follows:

- Absolute Return on Equity (33 per cent)
- Total shareholder return relative to the ASX 100 Resources comparator group (33 per cent)
- A basket of strategic measures (34 per cent).

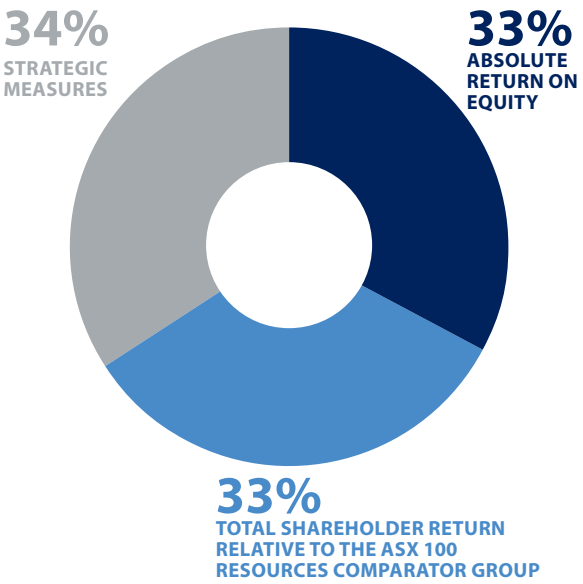
The relative weighting between financial and strategic measures provides the ability to assess performance across a cyclical market. Retaining AROE and adding relative TSR ensure continued alignment with delivering shareholder value.

Each of the performance measures provide for a determination by the Board that the Company has performed at a threshold, target or stretch level. These graduated levels of performance have been included in order to align and reward executives through market cycles. In the event that performance is at the target level in respect of the relevant performance measure, executives will be entitled to 100 per cent of the tranche of LTIP share rights to which the performance measure relates. Where performance is at the stretch level, executives will be entitled to 150 per cent of the tranche of LTIP share rights to which the performance measure relates.

Nevertheless, if the target for any individual performance measure is exceeded, so that up to 150 per cent of the relevant number of LTIP share rights may vest, the maximum number of LTIP share rights that may vest across the three performance measures is capped in aggregate at 100 per cent of share rights granted under the plan.

The Board believes that by incorporating the stretch level of performance into the vesting schedule, the Company will be better able to effectively reward and recognise executives in years where outstanding performance is achieved.

This will serve as further motivation and assist in retention through more challenging periods.



Absolute Return on Equity (AROE)

AROE performance is measured over the relevant three year performance period.

As part of the Board's consideration when determining AROE targets, consideration was given to the minimum AROE threshold. This consideration included the current market cycle and historical performance of the ASX 100 Resources comparator group.

Historical performance of the ASX 100 Resources:

- Average AROE for FY11 to FY15 was 7 per cent
- Average AROE for FY15 was 2.6 per cent, down from 7 per cent in FY14.

In light of this assessment, the Board lowered the minimum threshold from 20 per cent to 15 per cent based on the following:

- 15 per cent is an aggressive target which exceeds the Company's cost of equity
- An annual 15 per cent AROE would be at least the 70th quartile of performance of the ASX 100 Resources index in any of the past five years
- The stretch target of >30 per cent would be at least the 80th percentile of the ASX 100 Resources index in any of the past five years.

For personal use only

5 Incentive plan operation and performance (continued)

5.7.4 FY16 and FY17 LTIP operation (continued)

The AROE vesting schedule is as follows:

FY16 and FY17 LTIP AROE target and vesting schedule

Performance	Average ROE	Portion of tranche that vests
Below threshold	<15%	Nil
Threshold	15%	25 per cent of share rights vest
Target	30%	100 per cent of share rights vest
Stretch	>30%	150 per cent of share rights vest

Vesting between threshold and target performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

Relative Total Shareholder Return (RTSR)

RTSR is a measure of the performance of the Company's shares over a three year period against the ASX 100 Resources Index (noted below). It combines share price appreciation and dividends paid to show the total return to the shareholder expressed as a percentage.

Relative TSR hurdles are valuable because the Company needs to outperform a peer group of participants to receive any reward and therefore, is aligned to relative market performance. The ASX 100 Resources Index has been chosen as the comparator group because this is a transparent market indicator, includes Fortescue's ASX Listed commodity market peers and represents the peer group that Fortescue competes with for investment.

When formulating the vesting schedule for the TSR performance measure, the Board considered both local and international market practice. In line with the Company's approach to setting stretch targets, the Board determined that a vesting schedule more aggressive than standard market practice was required in order to align executive reward for this performance measure with superior shareholder returns. The vesting criteria for both threshold and target have been set at the 60th percentile and 80th percentile (respectively) higher than standard market practice. The plan also provides for a premium grant of awards where Fortescue delivers the market leading total shareholder return over the performance period.

The TSR vesting schedule is as follows:

FY16 and FY17 LTIP TSR target and vesting schedule

Performance	Average TSR	Portion of tranche that vests
Below Threshold	Below the 60th percentile	Nil
Threshold	At the 60th percentile	25 per cent of share rights vest
Target	At the 80th percentile	100 per cent of share rights vest
Stretch	At the 100th percentile	150 per cent of share rights vest

Vesting between performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap

The Board acknowledge that a relative TSR hurdle can result in unintended outcomes. The intent is to ensure no windfall gains or undue penalty. In the event that TSR is negative but the relative TSR hurdle is achieved, the Board will consider overall performance and circumstances and may, at its absolute discretion, reduce the level of vesting or determine that no award will be made in respect to the TSR measure.

Strategic Measures

As part of the enhancements made to the LTIP, the Company has introduced a basket of five strategic measures with associated key performance indicators aimed at directing performance toward the achievement of the Company's long term objectives (strategic objectives).

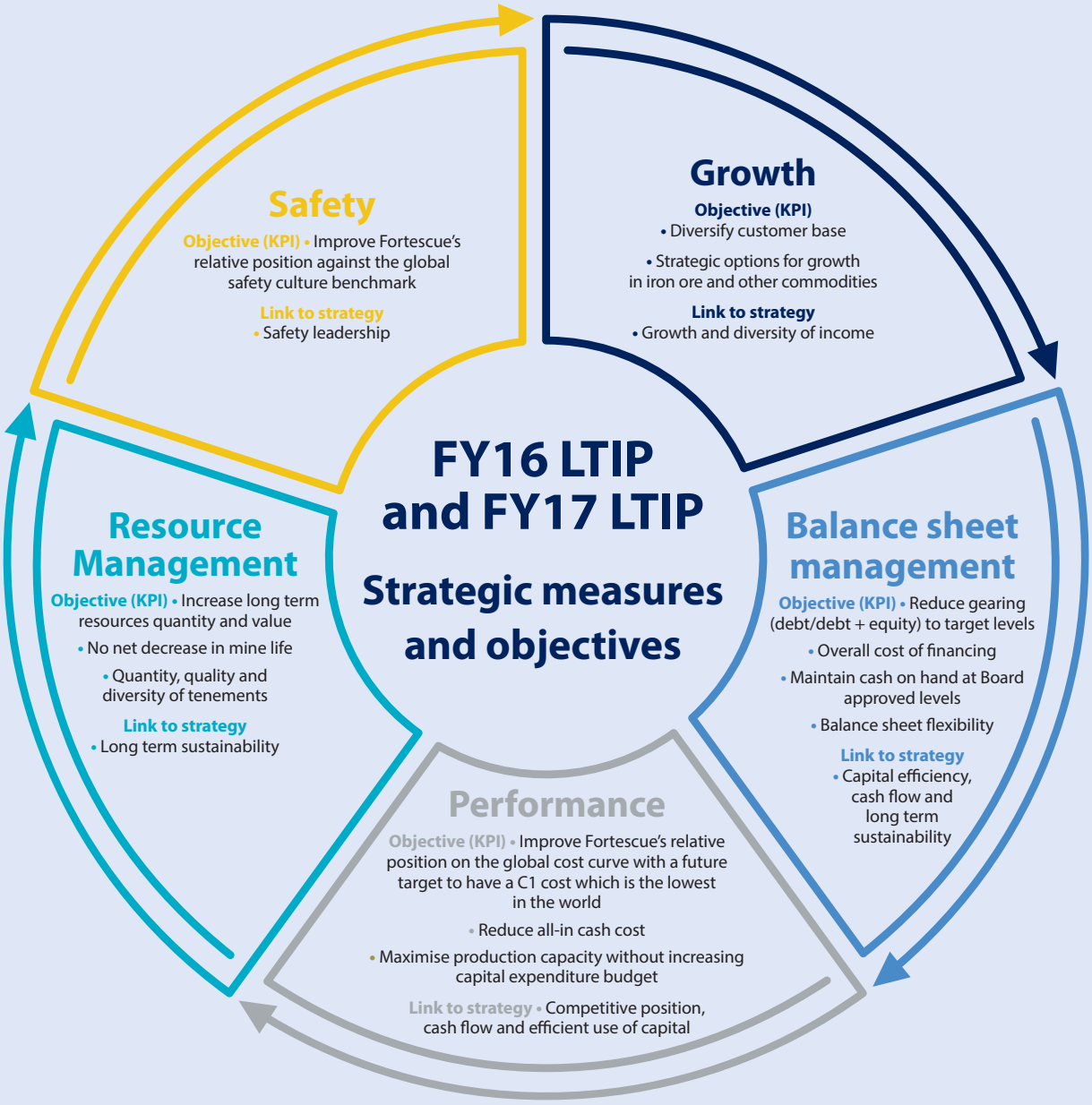
The strategic objectives devised by the Board specifically relate to key milestones and objectives that are fundamental to the Company's sustainability, continuing development and growth and delivery of shareholder value. The balanced scorecard approach ensures that executives continue to focus on the delivery of key milestones that drive long term value and that the Board has the ability to reward these achievements even in times when external factors outside the control of executives may impact shareholder returns.

For personal use only

5 Incentive plan operation and performance (continued)

5.7.4 FY16 and FY17 LTIP operation (continued)

FY16 and FY17 LTIP annual strategic measures and objectives are as follows:



Strategic measures and their performance targets for each strategic objective are set and assessed annually for each financial year of the relevant three year performance period.

This approach provides the Company with the flexibility to respond to economic and industry challenges as they occur to ensure that performance targets are always relevant and drive long term shareholder value.

Whether a strategic objective has been achieved is measured at the end of the relevant financial year on an outcome basis as follows:

Outcome	Score
Did not meet	0
Threshold	1
Target	2
Exceeded	3

For personal use only

5 Incentive plan operation and performance (continued)

5.7.4 FY16 and FY17 LTIP operation (continued)

FY17 annual strategic measures and objectives are as follows:

FY16 and FY17 LTIP Strategic measure target and vesting schedule

Performance	Score	Portion of tranche that vests
Below Threshold	<5	Nil
Threshold	5	25 per cent of share rights vest
Target	10	100 per cent of share rights vest
Stretch	15	150 per cent of share rights vest

Vesting between performance levels is calculated on a linear basis with the stretch element considered together with the achievement of all performance measures and subject to the aggregate performance cap.

The performance period for the FY16 LTIP is from 1 July 2015 to 30 June 2018 and the FY17 LTIP is from 1 July 2016 to 30 June 2019. Share rights vest at the end of the three year performance period subject to performance against the three measures.

In the event of a change of control of the Company, the performance period end date will generally be brought forward to the date of the change of control and awards will vest over this shortened period, subject to ultimate Board discretion. The Clawback Policy also applies to this plan.

Performance outcomes of the FY16 LTIP will be reported in the Company's FY18 Remuneration Report.

The balanced scorecard approach ensures that executives continue to focus on the delivery of key milestones that drive long term value and that the Board has the ability to reward these achievements even in times when external factors outside the control of executives may impact shareholder returns.

5.8 Salary Sacrifice Share Plan

Executives may nominate an amount (up to A$5,000 per annum) of pre-tax salary to acquire ordinary shares under the Salary Sacrifice Share Plan (SSSP). Provided ordinary shares are kept in the SSSP, income tax on the acquisition of these ordinary shares can be deferred by the Executive for up to seven years. Disposal restrictions apply while the shares remain in the SSSP. Shares acquired under this plan are not subject to performance conditions because they are issued in lieu of salary which would otherwise be payable and are subject to a monetary limit of A$5,000 per annum.

The balanced scorecard approach ensures that executives continue to focus on the delivery of key milestones that drive long term value and that the Board has the ability to reward these achievements even in times when external factors outside the control of executives may impact shareholder returns.

For personal use only

6 How executive remuneration is reported

Executive remuneration is reported in a number of ways throughout this report, differences of which are driven by the following:

- **Total remuneration package** – represents the current remuneration package at stretch target comprising fixed remuneration plus the nominal value of the ESSIP and LTIP at the applicable participating percentage. There was no increase to total fixed remuneration in FY17. Refer to section 7 for further information
- **Actual remuneration paid** – represents the nominal value to the individual and includes fixed remuneration, any cash incentives paid and the nominal value of equity at the time share rights vest
  - Value received by Executives is subject to performance and share price movement aligned with shareholder value. Refer to the table below for further information.
- **Statutory remuneration** – represents remuneration including share based payments calculated in accordance with Australian Accounting Standards including the fair value attributed to the FY17 ESSIP share component plus one year each of the FY15, FY16 and FY17 LTIP. In FY17, total statutory remuneration is higher than the prior year due to a negative accounting expense for share based payments in FY16. Refer to section 6.2 for further information.

6.1 Actual remuneration paid in FY17

The Board follows a structured process for ensuring that executive remuneration is aligned to shareholder value and stretch targets are set for the incentive plans which are reflective of market conditions and other challenges facing the industry. The nominal value of actual pay realised by executives is reflective of the following:

FY17 ESSIP is generally awarded partly as vested rights (minimum 50 up to 100 per cent determined on election) with the balance (0-50 per cent) awarded in cash:

- FY17 ESSIP share rights granted at the beginning of the performance period at a face value share price of **A$3.759**
- FY17 ESSIP vested rights awarded have a nominal value based on **A$5.2591** being the five day VWAP at the beginning of FY18. The increase in share price over the respective performance periods has resulted in an increase in equity value to executives in respect to these plans
- FY17 ESSIP additional stretch objective was awarded in cash
- FY15 LTIP did not vest.

The following table shows the nominal remuneration value realised by the individual and includes fixed remuneration, any cash incentives paid and the nominal value of equity at the time the share rights vest or shares are awarded. The following key points should be read in conjunction with the table below:

- Mr Pearce did not participate in the FY17 ESSIP
- Mr Cernotta's FY17 ESSIP award represents his pro-rata accrued entitlements paid as a cash payment
- Mr Cernotta's other payment relates to an ex-gratia payment of A$947,596 (inclusive of notice).

FY17 A$	Fixed[1] remuneration	FY17 ESSIP cash paid (including the FY17 ESSIP additional stretch objective)	Nominal value of FY17 ESSIP vested rights	FY15 LTIP shares awarded	Other payment	Nominal total remuneration earned in FY17
N Power	2,000,000	2,125,000	1,573,954	-	-	5,698,954
E Gaines[2]	459,375[3]	551,250	-[10]	-	-	1,010,625
G Lilleyman[4]	500,000[5]	500,000	482,680	-	-	1,482,680
S Pearce[6]	551,250[7]	-	-	-	-	551,250
N Cernotta[8]	554,167[9]	448,702	-	-	947,596	1,950,465

[1] Fixed remuneration includes cash salary, paid leave and superannuation.
[2] Ms Gaines commenced as CFO and Executive Director on 6 February 2017.
[3] Pro-rata entitlement.
[4] Mr Lilleyman commenced employment on 1 January 2017.
[5] Pro-rata entitlement.
[6] Mr Pearce ceased employment on 31 December 2016.
[7] Pro-rata entitlement.
[8] Mr Cernotta ceased employment on 31 January 2017.
[9] Pro-rata entitlement.
[10] Ms Gaines is eligible to participate in the FY17 ESSIP on a pro-rata basis and has elected to receive a 100 per cent of the FY17 ESSIP in vested rights subject to shareholder approval as detailed in Section 6.3.

The non IFRS information included in the table above has not been subject to audit.

For personal use only

6 How executive remuneration is reported (continued)

6.2 Statutory remuneration disclosures for executives

Statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards and include share based payments expensed during the financial year, calculated in accordance with AASB 2 *Share based payments*.

The estimated fair value of the short term performance rights was determined using a trinomial option pricing model and the estimated fair value of the long term performance rights was determined using a combination of analytical approaches, binomial tree and Monte-Carlo simulation. The fair value estimation takes into account the exercise price, the effective life of the right, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right.

Statutory remuneration differs significantly from actual remuneration paid to executives due to the accounting treatment of share based payments. For details of remuneration actually paid to the Chief Executive Officer and executives in FY17 refer to section 6.1.

Statutory remuneration disclosures for year ending 30 June 2017

- Mr Pearce's ESSIP and LTIP share rights were forfeited on resignation
- Mr Pearce's other payment relates to accrued annual leave and long service leave entitlements paid out on resignation
- Mr Cernotta's ESSIP and LTIP share rights were forfeited on resignation
- Mr Cernotta's FY17 ESSIP award represents pro-rata accrued entitlements paid as a cash payment
- Mr Cernotta's other payment relates to an ex-gratia payment of A$947,596 (inclusive of notice) and accrued annual leave entitlements paid out on resignation.

	Short-term employee benefits			Post employ-ment benefits	End of service	Share-based payments		Total statutory remuneration
FY17 A$	Cash salary and fees	ESSIP cash value for 2017 plan year (including the FY17 ESSIP additional stretch objective)	Non-monetary benefits	Superan-nuation	Other payments	ESSIP share value	LTIP share value	Total
Executive Directors								
N Power	1,963,000	2,125,000	8,528	30,000	-	1,424,582	1,918,947	7,470,057
E Gaines[1]	403,514	551,250	631	12,304	-	337,644[5]	-	1,305,343
S Pearce[2]	422,973	-	9,883	13,900	283,813	-	(447,741)	282,828
Executives								
G Lilleyman[3]	481,269	500,000	-	15,000	-	559,838	-	1,556,107
N Cernotta[4]	483,590	448,702	-	19,904	972,123	-	(385,809)	1,538,510

[1] Ms Gaines commenced as CFO and Executive Director on 6 February 2017.
[2] Mr Pearce ceased employment on 31 December 2016.
[3] Mr Lilleyman commenced employment on 1 January 2017.
[4] Mr Cernotta ceased employment on 31 January 2017.
[5] Ms Gaines ESSIP share value is the cash value of share rights that may vest subject to shareholder approval as detailed in Section 6.3.

For personal use only

6 How executive remuneration is reported (continued)

6.2 Statutory remuneration disclosures for executives (continued)

Statutory remuneration disclosures for year ending 30 June 2016

- ESSIP cash value payable in respect to FY16 was paid in September 2016
- In FY16, an accounting expense reversal related to ESSIP and LTIP share rights resulted in a reduction in total statutory remuneration compared to the prior year due to:
  - A partial reversal of share-based payment expense following completion of the three year performance period ended 30 June 2016, and the assessment of performance outcomes of the FY14 LTIP
  - A partial reversal of share-based payment expense as a result of the estimated vesting outcomes of the FY15 LTIP for the three year period ending 30 June 2017
- FY16 ESSIP and FY14 LTIP awarded to Mr Meurs represents accrued benefits as a pro-rata cash payment
- Mr Meurs FY16 ESSIP, FY14 LTIP, FY15 LTIP and FY16 LTIP share rights were forfeited upon his resignation in April 2016
- Mr Meurs' other payment relates to accrued annual leave and long service leave entitlements paid out on resignation.

	Short-term employee benefits					Post employ-ment benefits	End of service	Share based payments			
FY16 $A	Cash salary and fees	ESSIP cash value for 2016 plan year	FY14 LTIP cash value	Other incentive payment	Non-monetary benefits	Superan-nuation	Other payment	ESSIP share value	LTIP share value	Other share-based pay-ments	Total
Executive Directors											
N Power	1,963,000	1,313,999	-	2,000,000	8,186	30,000	-	1,118,626	(1,109,672)	-	5,324,139
P Meurs[1]	233,385	779,983	289,917	-	3,087	27,500	170,193	-	(1,316,302)	-	187,763
S Pearce	1,067,700	453,127	-	500,000	4,093	27,800	-	411,095	(446,444)	-	2,017,371
Executives											
N Cernotta	920,000	351,975	-	-	-	30,000	-	349,981	220,640	-	1,872,596

[1] Mr Meurs retired 18 April 2016.

6.3 Details of performance grants to executive directors

At the 2015 AGM, shareholders approved the maximum number of share rights to be granted to Mr Power without further shareholder approval as shown in the table below. Actual performance rights are granted annually by the board in accordance with the Performance Rights Plan.

Mr Power	Maximum share right grant FY16 to FY18	Share rights granted FY16 to FY18
ESSIP share rights	3,671,425	924,213
LTIP share rights	4,895,232	2,464,567
Total	**8,566,657**	**3,388,780**

For personal use only

6 How executive remuneration is reported (continued)

6.3 Details of performance grants to executive directors

Shareholder approval for Ms Gaines

Ms Gaines is eligible to participate in the FY17 ESSIP on a pro-rata basis. Generally, the ESSIP is delivered as a minimum of 50 per cent in vested rights (with the ability to elect up to 100 per cent). Under ASX Listing Rule 10.14, the Company requires shareholder approval to issue equity securities to a Director of the Company under an employee incentive plan. Ms Gaines has elected to receive 100 per cent of the FY17 ESSIP in vested rights, subject to shareholder approval.

Accordingly, the Company will seek shareholder approval at the 2017 AGM to issue equity securities under the performance rights plan to Ms Gaines as follows:

- 89,823 share rights in respect of financial year ended 30 June 2017 in accordance with the ESSIP
- 366,865 share rights in respect of the financial year ending 30 June 2018 in accordance to ESSIP and LTIP.

No share rights have been granted and no share rights will be granted to Ms Gaines under the Peformance Rights Plan unless shareholder approval is obtained at the 2017 Annual General Meeting.

The issue of share rights to participants will not have a diluting effect on the percentage interest of shareholders holdings if the share rights vest into shares acquired on market.

6.4 Details of share based payments relating to LTIP

The following table provides details of the number of share rights granted under the LTIP during the financial years ended 30 June 2015 to 30 June 2017. The value of the rights has been determined using the amount of the grant date fair value.

- The estimated fair value of the long term performance rights was determined using a combination of analytical approaches, binomial tree and Monte-Carlo simulation. The fair value estimation takes into account the exercise price, the effective life of the right, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the effect of additional market conditions, the expected dividend yield, estimated share conversion factor and the risk free interest rate for the term of the right
- Mr Pearce's share rights were forfeited upon cessation of employment on 31 December 2016. Mr Pearce was not granted any share rights under the FY17 LTIP
- Mr Cernotta's share rights were forfeited upon cessation of employment on 31 January 2017
- Ms Gaines and Mr Lilleyman commenced during the LTIP performance period and were not granted share rights under the FY17 LTIP.

	LTIP plan	Grant date	Performance period	No. share rights granted	Value per share right granted	Value of rights granted at grant date	Performance achieved %	Vested	Forfeited /lapsed
N Power	FY15	9/12/2014	1/7/14 to 30/6/17	660,837	$2.37	$1,566,184	Nil	Nil	660,837
	FY16	14/12/2015	1/7/15 to 30/6/18	1,666,482	$1.72	$2,866,349	Determined in 2018		
	FY17	20/09/2016	1/7/16 to 30/6/19	798,085	$4.61	$3,679,172	Determined in 2019		
S Pearce	FY15	9/12/2014	1/7/14 to 30/6/17	242,858	$2.37	$575,573	n/a	n/a	242,858
	FY16	14/12/2015	1/7/15 to 30/6/18	612,432	$1.72	$1,053,383	n/a	n/a	612,432
N Cernotta	FY15	9/12/2014	1/7/14 to 30/6/17	209,265	$2.37	$495,958	n/a	n/a	209,265
	FY16	14/12/2015	1/7/15 to 30/6/18	527,720	$1.72	$907,678	n/a	n/a	527,720
	FY17	20/09/2016	1/7/16 to 30/6/19	252,727	$4.61	$1,165,071	n/a	n/a	242,727

For personal use only

7 Executive contract terms

Total Remuneration Package and other terms of employment for Executives are formalised in a service agreement.

The CEO and Executives are employed on a rolling basis with no specified fixed term. The CEO and Executives are remunerated on a total fixed remuneration (TFR) basis inclusive of superannuation and allowances. There was no remuneration increase or changes in terms in FY17.

The major terms of the agreements relating to remuneration are set out in the table below:

			Maximum ESSIP opportunity		Maximum LTIP opportunity		Nominal value of total remuneration package at maximum opportunity
Position	**Executive**	**TFR* (A$)**	**% of TFR**	**A$**	**% of TFR**	**A$**	**A$**
Chief Executive Officer	N Power	2,000,000	112.5	2,250,000	150	3,000,000	7,250,000
Chief Financial Officer	E Gaines	1,102,500	75	826,875	100	1,102,500	3,031,875
Director Operations	G Lilleyman	1,000,000	75	750,000	100	1,000,000	2,750,000

* Total Fixed Remuneration as of 30 June 2017. Reviewed annually by the RNC

The FY17 ESSIP additional stretch objective was introduced by the Board for FY17 only and, therefore, does not form part of the maximum ESSIP opportunity on an ongoing basis.

Executives are required to provide written notice of three or six months (as specified in their individual service agreement) to terminate their employment. Should executives not provide sufficient notice they will forfeit the monetary equivalent (calculated based on TFR) of any shortfall in the notice period.

Termination benefits for KMP comply with the limits set by the *Corporations Act 2001* that do not require shareholder approval.

For personal use only

8 Non-Executive Director (NED) remuneration

8.1 NED remuneration policy

Fortescue's policy on NED remuneration requires that NED fees are:

- Not 'at risk' to reflect the nature of their responsibilities and safeguard their independence
- Market competitive with fees set at levels comparable with NED remuneration of comparable companies.

8.2 NED fee pool

NEDs receive fees for both Board and Committee membership. The payment of additional fees for serving on a Committee recognises the additional time commitment required by NEDs who serve on a Committee.

The maximum aggregate remuneration payable to NEDs is A$2.0 million, which was approved by shareholders at the annual general meeting on 19 November 2010. There have been no changes to the aggregate fee pool since November 2010.

The Board reviewed the fees payable to NEDs having regard to commentary, market position and benchmark data provided by Egan Associates. The consideration of NED fees took into account a general increase of 10 per cent, together with the alignment of the relativities in ARMC and RNC fees. The increase in fees does not exceed the shareholder approved total fee cap of A$2.0 million.

NED fees (inclusive of superannuation) effective from 1 July 2016 are outlined in the table below:

Position	Fee A$
Board Chairman*	0
Vice Chair	187,000
Lead Independent Director	187,000
Non-Executive Director	154,000
Audit & Risk Management Committee Chair	44,000
Audit & Risk Management Committee Member	16,500
Remuneration & Nomination Committee Chair	44,000
Remuneration & Nomination Committee Member	16,500
China Advisory Group Board of Representatives	66,000
Finance Sub-Committee Member	6,600

* The Chairman of the Board has elected to forego Directors fees for FY17 and received no form of remuneration in FY17.

Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentive programs of the Company.

For personal use only

8 Non-Executive Director (NED) remuneration (continued)

8.2 NED fee pool (continued)

The remuneration of Non-Executive Directors for the year ended 30 June 2017 and 30 June 2016 is detailed below:

FY17

$A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest	-	-	-	-	-
O Hegarty[1]	72,831	6,426	-	22,493	101,750
M Barnaba	169,231	58,591	-	23,921	251,743
E Gaines[2]	83,371	12,505	-	9,817	105,693
C Huiquan	154,000	-	-	-	154,000
G Raby[3]	81,596	28,404	-	-	110,000
S Warburton	139,367	51,551	-	20,046	210,964
J Baderschneider	154,000	-	-	-	154,000
J Morris[4]	87,025	10,666	-	10,257	107,948
P Bingham-Hall[5]	87,025	7,466	-	9,921	104,412

[1] O Hegarty retired 5 December 2016.

[2] E Gaines commenced as CFO and Executive Director on 6 February 2017.

[3] G Raby retired 5 December 2016.

[4] J Morris appointed 9 November 2016.

[5] P Bingham-Hall appointed 9 November 2016.

FY16

$A	Base fees	Committee fees	Other benefits	Superannuation	Total
A Forrest	-	-	-	-	-
O Hegarty	153,846	6,787	-	16,866	177,499
M Barnaba	153,846	48,416	-	21,237	223,499
E Gaines	126,697	19,005	-	15,299	161,001
C Huiquan	140,000	-	-	-	140,000
G Raby	140,000	60,000	-	-	200,000
S Warburton	126,697	27,150	-	16,154	170,001
J Baderschneider	140,000	-	-	-	140,000

NEDs receive fees for both Board and Committee membership. The payment of additional fees for serving on a Committee recognises the additional time commitment required by NEDs who serve on a Committee.

For personal use only

9 Equity instrument disclosures relating to key management personnel

9.1 Share rights

The movement during the reporting period in the number of share rights over ordinary shares in the Company held directly, indirectly or beneficially, by each of the KMP, including their related parties is as follows:

FY17	Balance at the start of the year	Granted[1]	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	3,805,250	1,097,367	(838,181)	(639,750)	3,424,686	-	3,424,686	3,424,686
E Gaines[3]	-	-	-	-	-	-	-	-
O Hegarty[2]	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby[4]	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider	-	-	-	-	-	-	-	-
J Morris[5]	-	-	-	-	-	-	-	-
P Bingham-Hall[6]	-	-	-	-	-	-	-	-
S Pearce[7]	1,416,675	-	(312,593)	(1,104,082)	-	-	-	-
Other key management personnel of Fortescue								
G Lilleyman[8]	-	99,761	-	-	99,761	-	99,761	99,761
N Cernotta[9]	934,880	347,500	(195,250)	(1,087,130)	-	-	-	-

[1] Performance rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 18 of the financial report.

[2] O Hegarty retired 5 December 2016.

[3] E Gaines commenced as CFO and Executive Director on 6 February 2017.

[4] G Raby retired 5 December 2016.

[5] J Morris appointed 9 November 2016.

[6] P Bingham-Hall appointed 9 November 2016.

[7] S Pearce ceased employment 31 December 2016.

[8] G Lilleyman commenced employment on 1 January 2017.

[9] N Cernotta ceased employment 31 January 2017.

FY16	Balance at the start of the year	Granted[1]	Exercised / converted	Forfeited / lapsed	Balance at the end of the year	Vested	Unvested	Not exercisable
Directors of Fortescue								
A Forrest	-	-	-	-	-	-	-	-
N Power	2,307,503	2,291,413	(714,736)	(78,930)	3,805,250	-	3,805,250	3,805,250
E Gaines	-	-	-	-	-	-	-	-
O Hegarty	-	-	-	-	-	-	-	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby	-	-	-	-	-	-	-	-
M Barnaba	-	-	-	-	-	-	-	-
S Warburton	-	-	-	-	-	-	-	-
J Baderschneider	-	-	-	-	-	-	-	-
P Meurs[2]	877,929	842,094	(235,881)	(1,484,142)	-	-	-	-
S Pearce	914,358	842,094	(304,413)	(35,364)	1,416,675	-	1,416,675	1,416,675
Other key management personnel of Fortescue								
N Cernotta	287,740	725,615	(66,311)	(12,164)	934,880	-	934,800	934,800

[1] Performance Rights were granted in accordance with the short term and long term performance rights plans, as disclosed in note 18 of the financial report.

[2] P Meurs retired on 18 April 2016.

For personal use only

9 Equity instrument disclosures relating to key management personnel (continued)

9.2 Share holdings (Ordinary Shares)

The numbers of shares in the Company held during the financial year by each Director of Fortescue and other key management personnel of the Group, including their related parties, are set out below:

FY17	Held at 1 July 2016	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other[1]	Held at 30 June 2017
Directors of Fortescue								
A Forrest	1,037,479,247	-	-	1,320,753	-	-	-	1,038,800,000
N Power	2,526,307	838,181	-	-	(413,250)	-	-	2,951,238
O Hegarty[2]	40,000	-	-	-	-	-	(40,000)	-
C Huiquan	-	-	-	-	-	-	-	-
G Raby[4]	8,000	-	-	-	-	-	(8,000)	-
M Barnaba	20,000	-	-	-	-	-	-	20,000
E Gaines[3]	50,000	-	-	-	-	-	-	50,000
S Warburton	50,750	-	-	-	-	-	-	50,750
J Baderschneider	138,000	-	-	-	-	-	-	138,000
J Morris[5]	-	-	-	-	-	-	-	-
P Bingham-Hall[6]	-	-	-	35,000	-	-	-	35,000
S Pearce[7]	227,305	312,593	-	104	-	-	(540,002)	-
Other key management personnel of Fortescue								
G Lilleyman[8]	-	-	-	-	-	-	-	-
N Cernotta[9]	50,000	195,250	-	-	-	-	(245,250)	-

[1] Negative amounts reflect the result of leaving the Company during the year.

[2] O Hegarty retired 5 December 2016.

[3] E Gaines commenced as CFO and Executive Director on 6 February 2017.

[4] G Raby retired 5 December 2016.

[5] J Morris appointed 9 November 2016.

[6] P Bingham-Hall appointed 9 November 2016.

[7] S Pearce ceased employment 31 December 2016.

[8] G Lilleyman commenced employment on 1 January 2017.

[9] N Cernotta ceased employment 31 January 2017.

FY16	Held at 1 July 2015	Received on conversion of rights	Issued	Purchases	Sales	Transfers	Other[1]	Held at 30 June 2016
Directors of Fortescue								
A Forrest	1,037,479,247	-	-	-	-	-	-	1,037,479,247
N Power	1,811,571	714,736	-	-	-	-	-	2,526,307
O Hegarty	40,000	-	-	-	-	-	-	40,000
C Huiquan	-	-	-	-	-	-	-	-
G Raby	8,000	-	-	-	-	-	-	8,000
M Barnaba	20,000	-	-	-	-	-	-	20,000
E Gaines	50,000	-	-	-	-	-	-	50,000
S Warburton	50,750	-	-	-	-	-	-	50,750
J Baderschneider	138,000	-	-	-	-	-	-	138,000
P Meurs[2]	26,199,152	235,881	-	-	(16,632,614)	-	(9,802,419)	-
S Pearce	107,557	304,413	-	2,500	(187,185)	-	-	227,305
Other key management personnel of Fortescue								
N Cernotta	18,236	66,311	-	-	(34,547)	-	-	50,000

[1] Negative amounts reflect the result of leaving the Company during the year.

[2] P Meurs retired on 18 April 2016.

For personal use only

CORPORATE DIRECTORY



Contact information

For personal use only

Shareholder information

As at 31 July 2017

Top 20 holders of ordinary shares

Rank	Name	Units	% of issued capital
1	Minderoo Group Pty Ltd	918,806,548	29.51
2	HSBC Custody Nominees (Australia) Limited	493,664,539	15.85
3	J P Morgan Nominees Australia Limited	352,009,749	11.30
4	Valin Investments (Singapore) Pte Ltd	228,007,497	7.32
5	Citicorp Nominees Pty Limited	170,399,449	5.47
6	Valin Resources Investments (Singapore) Pte Ltd	130,776,216	4.20
7	Emichrome Pty Ltd	93,045,000	2.99
8	AMNL Financing Pty Ltd	71,365,581	2.29
9	BNP Paribas Noms Pty Ltd	68,485,736	2.20
10	The Trust Company Limited	64,968,641	2.09
11	National Nominees Limited	34,280,167	1.10
12	AMNL Financing Pty Ltd	30,365,261	0.98
13	BNP Paribas Nominees Pty Ltd	27,279,102	0.88
14	Citicorp Nominees Pty Limited	15,078,443	0.48
15	The Minderoo Foundation Pty Ltd	11,310,500	0.36
16	Valin Mining Investments (Singapore) Pte Ltd	11,161,764	0.36
17	HSBC Custody Nominees (Australia) Limited-Gsco Eca	10,464,882	0.34
18	Mr William Graeme Rowley	8,244,951	0.26
19	National Nominees Limited	8,119,997	0.26
20	Ms Judith Mary Street	6,826,348	0.22
		2,754,660,371	**88.47**

Substantial shareholders

Name	Total shares	% of issued capital
Minderoo Group Pty Ltd and John Andrew Forrest	1,038,800,000	33.36
Hunan Valin Iron and Steel Group Company	434,914,118	13.97
Capital Research Global Investors	153,284,038	4.41

Range of shares

Range	Total holders	Units	% of issued capital
1 to 1,000	22,412	10,512,774	0.34
1,001 to 5,000	19,669	49,774,106	1.60
5,001 to 10,000	4,838	36,825,549	1.18
10,001 to 100,000	3,640	92,105,631	2.96
100,001 and over	307	2,924,580,091	93.92
Total	**50,866**	**3,113,798,151**	**100.00**

Unmarketable parcels

There were 2,164 members holding less than a marketable parcel of shares in the Company.

For personal use only

Glossary

Aboriginal owned businesses
Contractors, joint ventures, sub-contractors or other legal entities owned by Aboriginal people.

Australian Accounting Standards
Australian Accounting Standards are developed, issued and maintained by the Australian Accounting Standards Board, an Australian Government agency under the *Australian Securities and Investments Commission Act 2001*.

AMMA
Australian Mines and Metals Association.

ASX
Australian Securities Exchange.

ASX 100 Resource Index
A capitalisation-weighted index which measures the performance of the resources sector of the ASX 100. The index is calculated on an end of day basis.

ASX Corporate Governance Principles and Recommendations (Third Edition)
Principles and recommendations developed and released by the ASX Corporate Governance Council on the corporate governance practices to be adopted by ASX listed entities and which are designed to promote investor confidence and to assist listed entities to meet shareholder expectations.

Beneficiation
Beneficiation is a process whereby ore is pulverised into fine particles and the higher grade material is separated, often magnetically, from the gangue (waste).

BID
Bedded Iron Deposit.

bt
Billion tonnes.

C1 Cost
Operating costs of mining, processing, rail and port on a per tonne basis, including allocation of direct administration charges and production overheads.

CFR
A delivery term that indicates that the shipment price includes the cost of goods, freight costs and marine costs associated with a particular delivery.

Chichester Hub
Fortescue's mining hub with two operating iron ore mines, Cloudbreak and Christmas Creek, located in the Pilbara, approximately 250 kilometres south east of Fortescue's Herb Elliott Port in Port Hedland.

CID
Channel Iron Deposit.

CO_2e
Carbon dioxide equivalent which is the internationally recognised measure of greenhouse gas emissions.

Contractors
Non-Fortescue employees, working with the Company to support specific business activities.

Corporations Act
Corporations Act 2001 of the Commonwealth of Australia.

DID
Detrital Iron Deposit.

Direct employees
Total number of employees including permanent, fixed term and part-time. Does not include contractors.

dmt
Dry metric tonnes.

dmtu
Dry metric tonne unit.

EPA
Environmental Protection Authority.

Fe
The chemical symbol for iron.

FIFO
Fly-in Fly-out is defined as circumstances of work where the place of work is sufficiently isolated from the worker's place of residence to make daily commute impractical.

Fortescue
Fortescue Metals Group Limited (ACN 002 594 872) and its subsidiaries.

Fortescue River Gas Pipeline
A 270 kilometre gas pipeline which delivers natural gas from the Dampier to Bunbury Pipeline to the main power station in the Solomon Hub.

FY
Refers to a Financial Year.

Gearing
Debt / (debt + equity).

GJ
Gigajoules.

GRI
The Global Reporting Initiative (GRI) is an international independent organisation which has developed a standard for sustainability reporting and disclosure.

Ha
Hectares.

Hematite
An iron ore compound with an average iron ore content of between 57 per cent and 63 per cent Fe. Hematite deposits are typically large, close to the surface and mined via open pits.

HSES
Health, safety, environment and security.

ICMM
The International Council on Mining and Metals was established in 2001 to act as a catalyst for performance improvement in the mining and metals industry.

Indigenous Land Use Agreements (ILUA)
Statutory agreement between a native title group and others about the use of land and waters.

For personal use only

Glossary

Indicated Resource
As defined in the JORC Code, that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Resource
As defined in the JORC Code, that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

International Financial Reporting Standards
International Financial Reporting Standards (IFRS) is a single set of accounting standards, developed and maintained by the IASB with the intention of those standards being capable of being applied on a globally consistent basis.

IUCN
International Union for Conservation of Nature.

JORC Code
The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 or 2012 Edition, as the case may be, each prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia, as amended or supplemented from time to time.

Key Management Personnel
Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Kings CID Fines
Fortescue's stand-alone product produced from Channel Iron Deposit Ore from its Kings mine in the Solomon Hub, with an iron grade of 57.3 per cent Fe.

kL
Kilolitre.

Local supplier
Suppliers based in the Pilbara region.

LOM
Life of Mine, being the number of years over which available reserves will be extracted.

m^3
Cubic metres.

Magnetite
An iron ore compound that is typically a lower grade ore than Hematite iron ore because of a lower iron content.

Magnetite ore requires significant beneficiation to form a saleable concentrate. After beneficiation, Magnetite ore can be palletised for direct use as a high-grade raw material for steel production.

Measured Resource
As defined in the JORC Code, that part of a mineral resource for which tonnage densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

mt
Million tonnes.

mtpa
Million tonnes per annum.

Net gearing
(Debt - cash) / (debt - cash + equity).

NGER
The National Greenhouse and Energy Reporting (NGER) Scheme was introduced in 2007 to provide data and accounting in relation to Greenhouse Gas emissions and energy consumption and production. The NGER Scheme operates under the *National Greenhouse and Energy Reporting Act 2007 (NGER Act)*.

NPAT
Net profit after tax.

OPF
Ore Processing Facility.

Pilbara
The Pilbara region in the north west of Western Australia.

For personal use only

Glossary

Probable Ore Reserve
As defined in the JORC Code, the economically mineable part of an indicated mineral resource, and in some circumstances, a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Proved Ore Reserve
As defined in the JORC Code, the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Reserves or Ore Reserves
As defined in the JORC Code, the economically mineable part of a measured mineral resource and/or an indicated mineral resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves. Where capitalised, this term refers to Fortescue's estimated reserves.

Resources or Mineral Resources
As defined in the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quantity and quality that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. Where capitalised, this term refers to Fortescue's estimated Mineral Resources.

Rocket Fines
A product containing approximately 59 per cent Fe upon shipment and produced by Fortescue from the Chichester Hub.

Senior Executive
Leadership position title of Director or Group Manager.

Solomon Hub
A mining hub with two operating iron ore mines, Firetail and Kings. The Hub is located approximately 60 kilometres north of the township of Tom Price and 120 kilometres west of the railway that links the Chichester Hub to Port Hedland.

Super Special Fines
Fortescue's flagship iron ore product from the Chichester Hub, with an iron grade of 56.4 per cent Fe.

TRIFR
Total Recordable Injury Frequently Rate per million man hours worked, comprising lost time injuries, restricted work and medical treatments.

Underlying EBITDA
Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation, exploration, development and other expenses.

Underlying EBITDA margin
Underlying EBITDA / Operating sales revenue.

UNGC
United Nations Global Compact provides a leadership platform for business that are committed to aligning their strategies and operations with ten universally accepted principles in human rights, labour, environment and anti-corruption.

Voluntary employee turnover
Permanent and fixed term employees who left Fortescue voluntarily for reasons not initiated by the Company.

VTEC
Vocational Training and Employment Centre.

wmt
Wet metric tonnes.

WMYAC
Wirlu-murra Yindjibarndi Aboriginal Corporation.

WTI
West Texas Intermediate.

For personal use only

FY17 awards

The 2017 financial year was a record breaking year for Fortescue.



> **"These awards represent hard work and commitment and belong to the whole Fortescue family. I am in the fortunate position to be able to accept awards on behalf of everyone at Fortescue."**
>
> **CEO, Nev Power**

FY17 Awards

2017 Western Australian of the Year and Business Award winner
- Andrew Forrest AO

Officer in the Order of Australia
- Andrew Forrest AO

AMMA Industry Awards
Indigenous Employment and Retention Award

Diggers and Dealers
Digger of the Year Award

WA Industry and Export Awards
AIM WA West Business Pinnacle Award

Australian Financial Review 2016 Business Leaders Building, Pioneers and Stirrers Award
- Nev Power

Australian Financial Review
- Nev Power, Business Person of the Year

BusinessNews Western Australia
- Nev Power, Person of the Year

Mining Magazine 2016 Editors Award
- Fortescue Metals Group as the joint recipient, recognised for the Autonomous Haulage System

Mining Journal
- CEO of the Year

S&P Global Platts Metals Awards
- Metals Company of the Year for All Round Excellence
- Industry Leadership Award – Raw Materials and Mining

APAC Insider 2017
- Nev Power, CEO of the Year
- Leading Consultants Award – Ones to Watch in Mining

Australasian Reporting Awards
- Annual Reporting Award – Silver Award

Marine Money
- East Leasing Deal of the Year Award China Development Bank and Fortescue Metals Group

FY17 Award Finalist

2017 Australian of the Year Awards
- Andrew Forrest AO

Platts Global Metals Awards
- Nev Power, CEO of the Year

Australia-China Business Award
- Business Excellence Award for Cross-Border Investment

Shared Value Project
- Corporate Category
  – Highly Commended Award
  – Billion Opportunities

Thomson Reuters Foundation
- Stop Slavery Award

Australian Export Awards
- Minerals, Energy and Related Services Award

2016 Telstra Western Australian Business Women's Awards
- Jane Macey, Manager

For personal use only

FY17 key announcements

Timeline

September 2016

- Fortescue announces US$700 million repayment of 2019 Term Loan

November 2016

- Fortescue completes financing agreement for Fortescue Ore Carriers
- Fortescue Annual General Meeting highlights Company performance and commitment to diversity
- Fortescue celebrates its first Fortescue Ore Carrier with official naming ceremony in China

December 2016

- Debt reduction to continue as Fortescue is recognised as lowest cost seaborne supplier of iron ore into China
- Fortescue announces a further US$1.0 billion repayment of 2019 Term Loan
- Fortescue celebrates the arrival of FMG Nicola

February 2017

- Fortescue reports net profit after tax of US$1.22 billion

March 2017

- Fortescue celebrate arrival of FMG Grace in Port Hedland
- Fortescue announces US$1.0 billion repayment of 2019 Term Loan
- Fortescue and Universities announce China-Australia collaboration on mining sector innovation

May 2017

- Successful completion of Unsecured Notes Offering
- Improved payment terms to support Pilbara small businesses
- Fortescue celebrates arrival of FMG Sophia in Port Hedland

June 2017

- Fortescue celebrates the arrival of FMG Sydney in Port Hedland
- Fortescue VTEC's first all-female class graduates
- Fortescue announces FY18 innovation projects
- Fortescue announces A$100 million in new work with four Aboriginal businesses and joint ventures

For personal use only

Corporate Directory

Contact information

Fortescue registered office Australia

Level 2, 87 Adelaide Terrace
East Perth, WA 6004

T: +61 8 6218 8888
F: +61 8 6218 8880
E: fmgl@fmgl.com.au

www.fmgl.com.au

Fortescue Shipping office Shanghai, China

33/F East Building, Ellon Business Plaza
555 Pudong Ave, Pudong, Shanghai, P.R China

Singapore

FMG International, The Central
8 Eu Tong Sen St, 24-91 Singapore O59818

T: +61 8 6218 8888
F: +61 8 6218 8880
E: fmgl@fmgl.com.au

www.fmgl.com.au

Fortescue VTEC and Community office

1B/2 Byass St
South Hedland, WA 6722

T: +61 8 9158 5800
F: +61 8 6218 8880
E: hedlandcommunity@fmgl.com.au

www.fmgl.com.au

Stock Exchange listings

Australian Business Number

ABN 57 002 594 872

Auditor

PricewaterhouseCoopers
Level 15, 125 St Georges Terrace
Perth, WA 6000

www.pwc.com.au

Securities Exchange listings

Fortescue Metals Group Limited shares are listed on the Australian Securities Exchange (ASX)
ASX Code: FMG

Fortescue Share Registry

Link Market Services Limited
Level 12 QV1 Building
250 St Georges Terrace
Perth, WA 6000

Locked Bag A14
Sydney South, NSW 1235
T: 1300 733 136 (within Australia)
T: +61 2 8280 7603 (International)
F: +61 2 9287 0309

www.linkmarketservices.com.au

Stay in touch

Latest news, reports and presentations via email

If you would prefer to receive information such as Annual Reports, notices of meetings and announcements via email, you can change your communication preferences on the Registry website: **www.linkmarketservices.com.au**

Twitter

@FortescueNews

au.linkedin.com/company/fortescue-metals-group

www.youtube.com/user/FortescueMetalsGroup

Event calendar 2017

Key dates for Fortescue shareholders in 2017. Please note dates are subject to review.

Full year results announcement

21 August 2017

September Quarterly Production Report

24 October 2017

Annual General Meeting

8 November 2017

For personal use only

For personal use only

THE DREAM BEGINS

2003

2004 Cloudbreak identified



S&P/ASX 200 index 2005



2006 Port Hedland groundbreaking



FIRST ORE ON SHIP

2008



2009 27mtpa shipped

Christmas Creek expanded 2010



2011 Solomon construction begins

57.5mtpa shipped 2012



FIRETAIL OPENED AT SOLOMON



155MTPA SUSTAINABLE PRODUCTION

2013 80.9mtpa shipped

Kings Valley project opened at Solomon 2014



- Anderson Point Berth 5 completion
- Fortescue River Gas Pipeline completion
- 500 millionth tonne of ore shipped
- 165mtpa shipped sustainable production

2015

- US$2.9 billion debt repaid in FY16
- 169.4mt shipped in FY16
- Fortescue celebrates arrival of first ore carrier, FMG Nicola into Port Hedland
- Fortescue recognised as lowest cost iron ore supplier into China

2016

2017

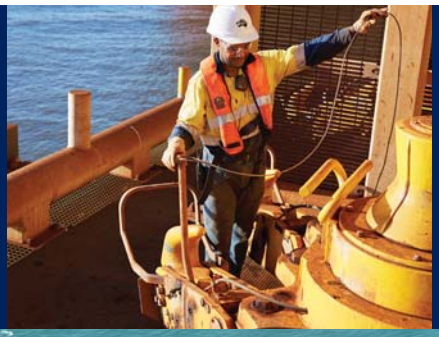
- Achieving lowest ever TRIFR of 2.9
- 170.4mt shipped in FY17

THE JOURNEY CONTINUES





Together we are Fortescue



For personal use only

Fortescue
The New Force in Iron Ore

www.fmgl.com.au @FortescueNews